
THE 2000



MANITOBA BUDGET



THE HONOURABLE
GREGORY F. SELINGER
MINISTER OF FINANCE





The 2000 Manitoba Budget Address

The Honourable Gregory F. Selinger
Minister of Finance
May 10, 2000

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Last September, Manitobans elected a new Government to lead them into a new century – a new Government with elected representatives from all regions of the province – the North, rural Manitoba and our cities.

Manitobans now have a Government for the many, not the few – a Government that understands the priorities of today's families. Today's Budget reflects those priorities.

Mr. Speaker, I feel privileged to present the first Budget of the new century to the people of Manitoba. On May 12, Manitoba celebrates its 130th birthday. Our history shows us how much we can accomplish when we set aside our differences and work together.

This constructive "can do" attitude was apparent during both my pre-Budget consultations and the Manitoba Century Summit. To the many Manitobans who participated in those consultations, offered their views and made constructive suggestions – thank you.

Today's Budget delivers on our five main commitments to Manitobans and their families:

- ending hallway medicine and rescuing health care;
- renewing hope for Manitoba's young people;
- keeping Manitoba Hydro, and building a new partnership between business and labour for new and better jobs;
- making our communities safer; and
- keeping balanced budget legislation and lowering property taxes.

Manitobans endorsed these five commitments because they are balanced, responsible, and responsive to the needs of today's families. This Budget begins to make that new balance a reality.

We have created a new balance by:

- meeting Manitobans' expectations for a health care system that is there when they need it, and an education system that prepares our young people for a rapidly changing economy;
- delivering responsible and sustainable tax relief for Manitoba families and for Manitoba businesses; and



- securing a balanced Budget, despite dealing with large over-expenditures discovered after taking office.

This is a good news Budget.

It is a responsible Budget.

It is a balanced Budget.

It delivers needed investment in health care and education, along with responsible tax relief.

These are the priorities of fair-minded, hard-working Manitobans and their families. These are the priorities of our Government.

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■ Health Care

Manitobans' number one priority is health care. Today, we address that priority head on, increasing health care spending by almost 6% over last year's expenditure, and targeting this funding to areas with the most critical need.

This Budget will help keep patients out of hallways, provide for more nurses, more personal care home spaces, and offer more home care services to Manitobans.

Upon taking office, our priority was to end hallway medicine in our hospitals. Our five-point plan to end hallway medicine includes:

- opening new beds;
- improving admission and discharge procedures;
- expanding community-based services;
- strengthening prevention programs like flu immunization; and
- increasing home care and adult day-care programs.

Two weeks ago, the Canadian Institute for Health Information cited the dramatic improvements in Manitoba's hospitals over the past six months. Waiting lists are now shorter, and postponed surgeries resulting from overcrowding in hospitals are down significantly. We will continue this progress. This Budget lays the groundwork for lasting improvement in our health care system.



The root causes of the rise of hallway medicine over the past decade were clear:

- ill-conceived decisions to cut nursing positions and close hospital beds;
- poor management of existing beds;
- delayed construction of required personal care home spaces; and
- failure to listen to caregivers.

We are laying the foundations for a better health care system in which hallway medicine is no longer routine. We are expanding home care, primary care and community-based services as integral parts of our health care system. We will rebuild the acute care sector and expand the community sector.

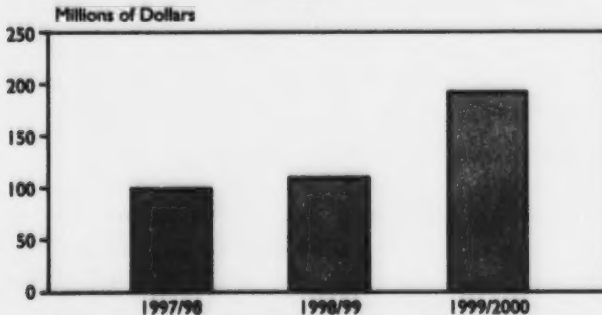
In 1999, Manitoba's health spending was the highest per capita in the nation. Our larger challenge is to stabilize health expenditure while ensuring there are needed resources for patient care. There must be secure, sustainable and timely funding for health care as well as effective use of health care resources.

Realistic budgeting is key. Deloitte and Touche's report on our Province's finances revealed chronic overspending of the health care budget. In the last three years, unbudgeted health expenditures totalled over \$400 million. Our Budget realistically funds the quality health services we need.

Manitoba announced a five-point plan to address hallway medicine in November 1999.... These and related efforts seem to have had a positive effect.

Canadian Institute for Health Information

Manitoba Health, Actual Expenditure over Budget



Sources: Deloitte & Touche, 3Q Report

*Today's Budget
provides
additional
funding for
health care...
strategically
allocated to
Manitobans'
top priorities.*

Today's Budget provides \$2.4 billion for health care programs. That is an increase of \$135 million over last year's projected expenditure.

For the first time in a decade, health authorities have their budgets based on a stable funding formula. Regional health authorities must exercise greater fiscal responsibility, avoid deficits and reduce administration costs now that proper funding levels are in place.

Training hundreds of new nurses is key to providing quality health services. As part of our plan to reduce nursing shortages, we are reintroducing a diploma nursing program, while continuing our support for the existing degree program. We are also educating and training more aides.

Nurses should have a voice in important decisions concerning their working conditions. A nursing advisory council and nurse representation on health authority boards will help to ensure that involvement. In addition, our Government will work with employers, unions and front line health care staff to improve the use of all available health care workers.

Quality home care services help to relieve pressure on acute and long-term care facilities, and improve service in the community. I am pleased to announce that today's Budget expands home care services to provide community intravenous therapy, improved palliative care and more adult day care. This means stronger home care services for 30,000 Manitobans.

This Budget also provides new or additional funding for other priority health care programs. We will:

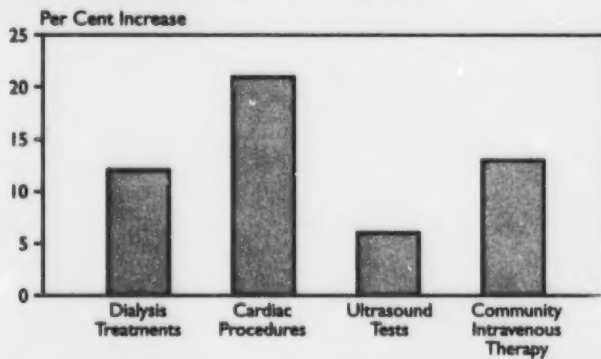
- increase cardiac care and cancer care;
- expand Pharmacare, including coverage of new lifesaving drugs, palliative care drugs and the Aricept trial for Alzheimer patients;
- reduce waiting times by increasing hours for oncology treatment, increasing dialysis capacity, and providing a new pediatric CT scanner;
- enhance our rural physician recruitment and retention plan;
- increase funding for personal care home operations, not just for more beds but for existing beds as well;



- strengthen partnerships with the federal government to improve Aboriginal health, including diabetes programs and new dialysis units in Aboriginal communities;
- provide additional funding for mental health programs and enhanced access to community health services through our new Program for Assertive Community Treatment;
- increase grants to community facilities, such as the Village Clinic, the Francophone Primary Health Care Centre in St. Boniface, and the Memory Assessment Clinic at Lion's Place Alzheimer Housing Complex;
- provide \$5 million more to enhance Emergency Response and Transport Services for rural, northern and urban ambulance services;
- add eight Workplace Health and Safety Officers to ensure safer, healthier workplaces in the manufacturing, construction and health care sectors; and
- continue the targeted programs to reduce waiting lists.

Our plan puts patients first by redirecting administrative costs to front line services.

Additional Procedures in 2000/01



Our plan for health care focuses on putting patients, not overhead, first. Amalgamating Winnipeg's health authorities allowed us to redirect costs from administration to caregivers. As a consequence of the amalgamation, we expect increased accountability of institutions to the Winnipeg Regional Health Authority.

Our health care system is often overlooked when it comes to promoting Manitoba's competitive advantage. Manitoba employers have considerably lower employee health insurance

costs than employers in the United States. In addition, unlike some provinces, Manitoba does not levy health care premiums.

Employers in U.S. cities incur \$3,000 to \$4,000 annually per employee in health care insurance costs. More importantly, the public health system provides assured access to health services for every Manitoban, whatever their financial circumstances. This is why it is imperative to maintain and protect our universal health care system.

Manitoba is a leader in the renewal of health care in Canada. In fact, home care and Pharmacare were pioneered right here in Manitoba. And, we are committed to building the most cost-effective primary and community-based care systems in Canada. However, in order for this to happen, we need the federal government to once again become a committed and reliable partner.

Canadians are fully aware of the \$6.2 billion federal funding cut for health, post-secondary education and social services in 1995. This cut reduced Manitoba's annual revenue by \$236 million. Despite five years of unparalleled growth in the federal government's revenues and surpluses, federal Canada Health and Social Transfer (CHST) payments remain below 1994/95 levels, and the health supplement is \$39 million lower this year.

Our Government wants to work with the federal government, other provinces and, most importantly, with citizens and front line health care workers to ensure the sustainability of public health care. Full restoration of the CHST is an important first step toward a more financially sustainable system. Manitoba has been a leader in Medicare and, with help from the federal government, this will continue.

With today's Budget, we demonstrate our commitment to stronger public health care for Manitobans, and signal our support for a nationwide renewal of Canada's health care programs.

*Our Government
wants to work with
the federal
government. Full
restoration of the
CHST is an
important first step.*



■ New Hope for Young People

Among Manitoba's greatest strengths are the individual and community values that make our province a great place to raise a family.

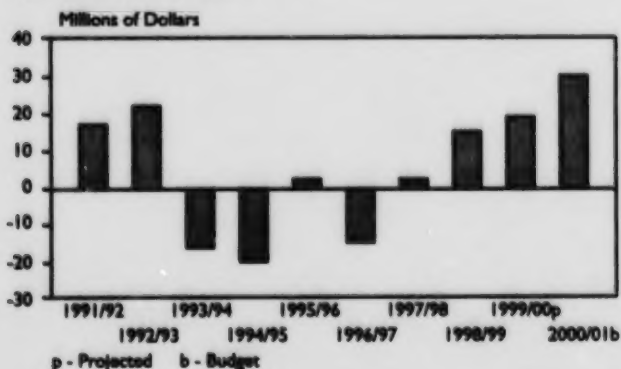
We have a responsibility to the children of our province to ensure that their dreams of a brighter future can be realized. This means providing accessible and relevant educational and training opportunities to help all Manitoba children succeed.

Our Government is committed to creating new hope for young people. And today, with this Budget, we are delivering on that commitment by providing a total of \$1.4 billion for K to Senior 4 and post-secondary education and training in Manitoba, including tax credits.

New hope for young people requires excellent preparation to create the opportunities of the future. We are reversing the recent neglect of our public school system. Our commitment starts with providing stable and predictable funding increases. As already announced in February, we are providing almost \$30 million in funding for K to Senior 4 programs provided by school divisions. In addition, the public schools capital program will be \$51 million this year.

New hope for young people starts with increased investment in education and training.

Change in Provincial Funding to Public Schools



Our Government is committed to offering young Franco-Manitobans access to quality education in French. My colleague, the Minister of Education and Training, recently announced the renewal in principle of a five-year

*A good education
strategy is a good
economic strategy.*

Canada-Manitoba Special Funding Agreement for governance of education in French. Over that term, our Government will provide Division Scolaire Franco-Manitobaine supplementary resources and cash totalling \$15 million to assist in meeting its provincewide mandate and obligations.

Manitobans will be well positioned if we prepare to take full advantage of the growing knowledge-based economy. Quality post-secondary education is essential in creating and keeping the highly skilled, good-paying jobs of the new millennium.

I am pleased to announce our advanced education plan includes the following measures that meet our election commitments:

- doubling community college enrolment over four years, beginning with \$5 million in new funding for the College Expansion Initiative;
- taking \$8 million, or 10%, off student tuition bills in public colleges and universities;
- increasing university and college operating grants by \$8.8 million and providing additional funding of \$2 million for a total increase of 3.8% to ensure that colleges and universities do not increase tuition. This will ensure that the 10% reduction is a real saving to students.

Operating Grants to Universities and Colleges

Components of Increase

	Base Operating Grant	Tuition Increase Offset*	Total	
	(\$ Millions)	(\$ Millions)	(\$ Millions)	%
Support	8.8	2.0	10.8	3.8

* Offset equivalent to a 2.2% tuition fee increase.

- introducing a new \$5.9 million Manitoba Millennium Bursary Program, the first bursaries available since 1993. The flexibility of the Canada Millennium Scholarship, administered by Manitoba, assists in establishing this bursary program. On average, these bursaries will benefit over 5,000 students annually.

In today's world, a good education strategy is a good economic strategy. At the recent Manitoba Century Summit hosted by the Premier, there was a broad consensus among labour,



business, the community and government that we need a more responsive education system.

Along with direct support for educational institutions, this Budget also provides funds for schools to form innovative partnerships with other sectors of the community. We believe that school facilities can serve the community better. For example, through the new Lighthouse Program, and with the assistance of community volunteers, we will be opening schools after hours as recreation centres. In addition, the Community Access Program, developed in co-operation with the federal government, will add 400 public Internet access sites in schools and community facilities across Manitoba.

We will also be targeting new apprenticeship and training programs toward increasing Aboriginal participation. In the future, an increasing number of new entrants to Manitoba's labour force will be Aboriginal. Working in close partnership with Aboriginal communities and with the federal government, Manitoba can ensure Aboriginal youth benefit from the job opportunities available, and can contribute and share fully in our future economic growth.

Some of these initiatives are made possible by redirecting funds from administration directly into the classroom. To this end, the Department of Education and Training will reduce 60 positions in the coming year.

Our Government is committed to providing new hope for young people, and the education priorities I have just outlined make it clear that today's Budget follows through on this commitment.

■ Families and Safe Communities

Along with the important role education plays in our society, our Government clearly recognizes that healthy families and communities play the most important role in providing new hope for our children. This support will help to ensure that our province is a healthy place for children and their families to live, learn, work and play.

A child's earliest years are vitally important in determining later health and well-being. Children who grow up in safe, stable and nurturing environments have better opportunities and success throughout their lives. Studies indicate that

*Healthy families
and communities
mean better
opportunities and
success for our
children.*

*Safe and stable
neighbourhoods
depend on more than
bricks and mortar.*

*Initiatives like
Neighbourhoods Alive!
will build on the
existing strengths and
experiences of people
and community
organizations.*

effective, early childhood programs are a sound investment leading to improved graduation rates, higher incomes, decreased crime rates, and less reliance on social assistance.

The tax relief I am announcing today, including the new Manitoba Family Tax Reduction, will benefit Manitoba families. In addition, our strategy for healthy children and families includes the following features.

- The Healthy Child Initiative will provide \$13 million for proven services such as parent-child centres, prenatal and early childhood nutrition, nurses in schools, adolescent pregnancy reduction, and fetal alcohol syndrome/fetal alcohol effect prevention.
- Almost \$9 million more for child care will provide funding for additional subsidized children, more licensed child-care spaces and additional funding to integrate more children with disabilities into day care. In addition, wages for child-care workers will be addressed by our new funding model, worked out in collaboration with the child-care community.
- Starting in July, increases in the National Child Benefit will be retained in full by all families. In addition, families on income assistance with children under age six, will receive an additional \$20 per month per child. We will also provide additional assistance to families for the cost of children's school supplies.

We also know that healthy families require healthy communities. However, helping to build safe and stable neighbourhoods is a significant undertaking, and one that requires action on various fronts. Creating healthy neighbourhoods depends on more than just bricks and mortar. Today's families need access to vital programming and services. They also need decent and affordable housing, and an effective justice system.

Our strategy for healthy families and communities features the following.

- Neighbourhoods Alive!, a long-term community-based development strategy, provides community organizations the support they need to rebuild neighbourhoods in Winnipeg, Brandon and Thompson. Neighbourhoods Alive! focuses on housing, employment and training, education and recreation, and safety and crime prevention.



- A new Winnipeg housing initiative will provide community groups with single-window access to a \$22 million housing fund created by federal, civic and provincial governments. An additional \$1 million per year will be available for targeted neighbourhoods outside of Winnipeg. Both initiatives are part of Neighbourhoods Alive! and will provide up to \$10,000 per housing unit to community-based organizations in targeted areas. This is an example of the resources that can be marshalled when governments work together.
- The Residential Rehabilitation Assistance Program, aimed at improving deteriorating housing stock, will be expanded.
- Effective and innovative ways to enhance public safety will be introduced through Justice initiatives, including measures to make our correctional facilities safer for the public and staff, and a new Criminal Organization and High Risk Offender Unit.
- Maintenance enforcement will be augmented with full-time officers in order to improve service.
- We will build genuinely safer communities by assisting victims of crime, and developing effective approaches to preventing criminal behaviour. Earlier this year, our Government introduced the first child victim support initiative in Canada.
- Our Government will work in partnership with communities throughout Manitoba to give our young people more access to community resources and facilities for positive alternative activities. My colleague, the Minister of Justice, will be announcing details on this initiative shortly.
- Our Aboriginal Justice Implementation Commission is reviewing the recommendations of the Aboriginal Justice Inquiry to provide advice on implementation. We look forward to that advice, and will continue our work to improve justice services for Aboriginal people.
- Our Government is committed to providing Manitoba's Francophone community with better access to Government information and services. The first of three planned French Language Services Centres should open later this year, in Notre-Dame de Lourdes, and early next year in St-Boniface and St-Pierre-Jolys.

We will continue our work to improve justice services for Aboriginal people.

- Supported Living and Vocational Rehabilitation programs for adults with disabilities will be expanded. The increase will expand residential, day and support services for adults with a mental disability who are living in the community, and will strengthen agencies' ability to provide high-quality services.

Our Government believes that educational opportunity, accessible child care, fair income support programs, maintenance enforcement and our other initiatives will provide an effective springboard to employment and greater independence.

We are committed to revitalizing older neighbourhoods. The days of top-down, one-size-fits-all solutions are gone. Often, the best ideas for community revitalization come from the community itself. We will build on the existing strengths and experiences of residents and community groups, to take into account the distinctive needs, conditions and priorities of individual neighbourhoods.

The development of safe and stable neighbourhoods is key to achieving and maintaining the high quality of life that Manitobans and their families expect and deserve. All orders of government, labour, business and the community have an important role to play in rebuilding and revitalizing Manitoba neighbourhoods. Today's families benefit when governments and the community work together.

Healthy communities for our children, and our children's children, are dependent on a healthy environment. Perhaps the most valuable resource for future generations is our abundance of fresh water. Our Government will provide greater protection for Manitoba's rivers, lakes and streams by increasing resources to protect water quality and by mapping those areas at risk of ground water pollution.

We know that the sustainable use of our resources requires careful planning. To this end, the Department of Conservation will establish a new Environmental Stewardship Division. This Division will implement wide area planning that will link development decisions to the sustainability of our ecosystems. They will also work with Aboriginal communities to ensure that our land use decisions respect the traditional entitlements of Manitoba's First Peoples. By working in co-operation with Aboriginal communities and with industry, we have protected over 200,000 hectares of endangered spaces within our first seven months in

**There is a
fundamental link
among providing
accessible and
affordable post-
secondary education,
attracting successful
business ventures,
and maintaining a
well-trained and
educated work force.**

Premier Gary Doer



office. We will continue to work co-operatively to sustain our environment for the benefit of future generations.

Today's Budget clearly provides for increased emphasis on Manitoba families, and recognizes the importance of safety and revitalization within our communities. We have listened to Manitobans and have carefully developed budget priorities that meet our commitment to the families and communities of our province.

■ A New Partnership Between Business and Labour

The Economic Outlook

A great strength of the Manitoba economy lies in its diversity. In fact, we have one of the most diversified economies in Canada. We also have a significant affordability advantage. And we consistently achieve one of the lowest unemployment rates and highest employment rates. Manitoba's unemployment rate over the first four months of 2000 has averaged 5.3%. In fact, last month, it declined to 5.0%, the lowest monthly unemployment rate since January 1980.

Economic opportunities are flourishing in all parts of this province – in Winnipeg, in the North, and in rural Manitoba. Our Government is committed to helping provide economic opportunities across Manitoba.

Several recent announcements attest to the strength of our economy. Vansco Electronics, a local firm employing 500 Manitobans, has announced an expansion that will create a further 340 jobs over the next few years. Air Canada is bringing another 170 positions to Winnipeg, and a new contract for Motor Coach Industries means another 300 jobs. Loewen Windows announced a plant expansion in Steinbach that will create 250 new jobs, and Schneider Corporation's \$125 million expansion will boost employment by 1,100 positions.

In addition, there are many other signs that point to the strength of our economy.

- Manitoba is North America's largest producer of buses. Two major firms – Motor Coach Industries and New Flyer –

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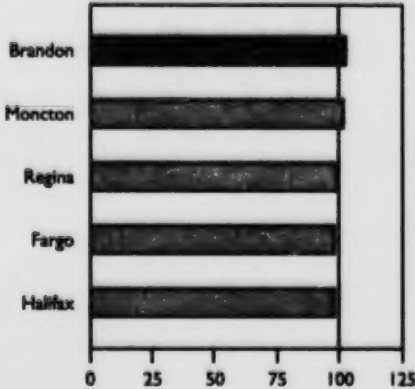
directly employ more than 3,000 Manitobans. MCI produces over half the intercity bus coaches sold in Canada and the U.S., while New Flyer has become one of North America's leading manufacturers of city transit buses. Both firms have proven that made-in-Manitoba skills and talent are the foundation for international success.

- Manitoba's aerospace industry has always been a major employer of well-educated, technically skilled workers. Last year, the aerospace industry – including firms like Boeing Canada, Standard Aero and Bristol Aerospace – employed 5,000 Manitobans and earned gross revenues of over \$1 billion. The prospects for continued robust growth of aerospace in Manitoba continue to look bright.
- In addition, demand and prices for metals have recently risen sharply, and the Northern mining sector should contribute strongly to Manitoba's economic growth over the next year.
- In the fall of 1999, Hudson Bay Mining and Smelting announced new capital investment of \$359 million in its Manitoba operations in Flin Flon to extend copper and zinc mining in the region to 2016.
- In February 2000, Inco Ltd. announced a \$70 million investment to deepen its Birchtree Mine in Thompson. The mine is expected to reach full production by 2004, and its production life is now scheduled to extend to 2016.
- Manitoba Hydro recently announced construction of a new \$180 million natural gas thermal generating station in Brandon.
- Capital investment in Manitoba has increased for the past eight years, and investment intentions for 2000 remain among the strongest on record.
- New migration data show a sharp reduction in the level of net out-migration to other provinces. Our training and education policies will attract more young people who are needed to address skills shortages and meet the needs of Manitoba's growing economy. Manitoba is a place where families can come for good jobs and a strong quality of life. Stronger population growth will also boost demand for housing, consumer goods and services, and other made-in-Manitoba products.



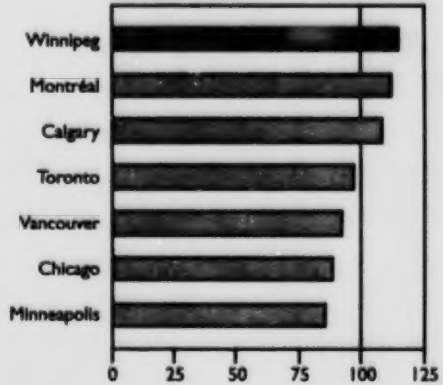
Internal Rates of Return Small Manufacturing Firm in Cities under 500,000

Average = 100.0



Internal Rates of Return Small Manufacturing Firm in Cities over 500,000

Average = 100.0



Along with all the previously mentioned attributes, Manitoba will continue to be one of the most affordable places to do business in Canada. For example, rates of return for a small manufacturing firm locating in Brandon or Winnipeg compare extremely well with other competing locations throughout Canada and the U.S.

Based on the average of seven major economic forecasts, Manitoba's economy will grow 2.7% in real terms in the current year. This is a significant increase from 2.2% in 1999.

The Manitoba Century Summit

As part of our commitment to begin building new partnerships between business and labour, our Government held the Manitoba Century Summit on March 14 and 15. The Summit brought together labour, community, business and government participants to forge a consensus on how we can build our economy. Everyone recognized that we all benefit when we work together to build a stronger Manitoba.

Our Manitoba Century Summit identified several key issues including overcoming skills shortages, fostering and encouraging capital investment, and promoting leading-edge industries, including biotechnology, information technology and advanced manufacturing.

Solutions require co-operation between the private sector and government, between labour and business, between all parts of the community.

**Harvey Sector,
Century Summit
Moderator**

The Summit developed a broad range of strategies to address these issues. This Budget follows up on the conclusions of the Summit through the development and implementation of a solid economic strategy for Manitoba.

Economic Initiatives

Our Government's economic strategy is based on taking action where we can make a positive contribution, and building on our competitive advantages. Today's Budget is an important part of our economic strategy. Our Government action includes the following.

*Our Government is
building on the
competitive
advantages we
already enjoy.*

- **Addressing skills shortages:** This is a priority concern shared by Manitoba business and government. In addition to doubling community college spaces, we will provide more flexible education and training options, and take steps to attract more immigrants and skilled labour to Manitoba. We will also address the barriers experienced by many Aboriginal Manitobans as they enter the work force, and create partnerships to better include our Aboriginal population in the economy.
- **Promoting immigration:** We will support both humanitarian and economic immigration to Manitoba for skilled labour, business entrepreneurs, and family reunification.
- **Keeping Manitoba Hydro:** Manitoba Hydro is one of the great advantages enjoyed by Manitoba families and businesses. It provides reliable electrical power at the lowest cost of any major utility in North America. It will also continue to provide huge economic benefits and jobs in communities throughout Manitoba.
- **Reducing small business taxes:** Our Government is committed to seeing small and innovative businesses grow and prosper. The small business income tax rate was decreased from 8% to 7% this year, and it will be further reduced to 6% next year, and to 5% on January 1, 2002.
- **Legislation facilitating e-commerce:** In response to changing requirements in the new economy, legislation facilitating e-commerce will be brought forward this year.
- **Supporting research and development:** Our Government understands the sustained economic development of our



province depends on a high level of continuous research and development activity. The Manitoba Research and Development Tax Credit supports more investment in this critical area.

Manitobans are constantly making new scientific and technological discoveries. It is important for Manitoba to reap the investment and jobs that flow from these breakthroughs. Today's Budget provides support for Keystone Technologies Incorporated – a new fund dedicated to ensuring the continued commercialization of biotechnical and health care innovations by Manitoba companies.

This Budget directly encourages more technological, knowledge-based activity in Manitoba.

- The Manitoba Science and Technology Fund, a venture capital fund, administered by Crocus Investments, supports investment in small and medium-sized firms active in various areas of technological research.
- The Manitoba Innovations Fund will provide \$7 million to help Manitoba's universities, hospitals, and other research institutions perform research and technology development.
- To build on the strength of mining and other natural resource industries, our Government will work with other provinces to ensure the general Corporate Income Tax reduction announced in the federal Budget is extended to the natural resources sector.
- As Manitoba industry continues to grow, our Government will ensure the environment is protected, activities are sustainable, and clean air and fresh water are available throughout Manitoba.
- In anticipation of a new Infrastructure Agreement with the federal government, we are allocating \$4 million for this initiative. It is expected that Manitoba's share of this new national program will generate up to \$318 million in infrastructure and other improvements throughout the province over six years.
- Today's Budget provides ongoing support for Manitoba companies to raise new capital and expand through the Manitoba Equity Tax Credit. Labour-Sponsored Venture Capital Corporations, supported by Manitoba and federal tax credits, are a success in Manitoba. The

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economy.*

Crocus Investment Fund is an example of labour, the community and business working together and creating more jobs. The ENSIS Fund provides another opportunity to access and invest in labour-sponsored venture capital.

Roads, bridges and other transportation works are keys to the Manitoba economy, and today's Budget commits \$177 million to construction and maintenance of this infrastructure.

Manitobans should promote our competitive advantage. This Budget contains a paper on the Manitoba Advantage. We enjoy significant advantages in cost and location. Quality schools and affordable post-secondary education provide another edge. Manitobans recognize that strong health and education programs contribute to the economy, while a growing economy can provide additional revenue to improve our overall quality of life.

Community and Economic Development

This Budget reflects our belief that we must focus on both community and economic development. A revitalized partnership with local governments is important in our community and economic development efforts. This Budget provides significant resources to build this partnership.

Manitoba's unique provincial-municipal tax-sharing arrangement provides local governments with a share of growing provincial revenue. This year, the Provincial-Municipal Tax-Sharing Program payments will rise \$7 million to \$77 million. This 10% increase delivers \$44 million to the City of Winnipeg and \$33 million to other local governments.

The Rural and Urban Economic Development Initiatives provide funding for economic development, tourism, trade and investment strategies, and entrepreneurial assistance. We are expanding the Grow Bonds and Community Works Loans programs for community development corporations to include urban projects. Our TEAM program will be a pilot project to provide micro-credit loans to small Northern enterprises.

In addition, Manitoba's VLT revenue-sharing program provides \$7 million to the City and \$6 million to rural and Northern Manitoba communities.



Urban Initiatives

The City of Winnipeg will benefit by \$22 million of capital assistance provided through today's Budget.

To support urban economic development, this Budget allocates almost \$18 million to the Urban Economic Development Initiative. This will provide \$2 million to the Department of Health to support improvements to ambulance services in Winnipeg.

In the 1950s and 1960s, governments worked together to build the Red River Floodway. We are currently in discussions with the federal and City governments to develop a co-ordinated response to the International Joint Commission's recommendation of improved flood protection for Winnipeg. And, together with the federal government, we are providing resources in this Budget to complete improvements to the floodway inlet, which will increase floodway capacity by up to 10%.

Rural Initiatives

Along with these urban initiatives, today's Budget provides over \$18 million for rural capital projects such as sewer and water and the Interlake Natural Gas project.

The Rural Economic Development Initiative provides \$15 million in support to local governments for youth programs, regional development corporations, and community development programs like Grow Bonds, trade promotion and the Community Works Loans program.

The Community Ring Dykes Program provides funding, with federal cost sharing, for communities in flood-prone areas.

We will also be introducing a program to replace older ambulances in rural Manitoba.

Aboriginal and Northern Initiatives

Today's Budget includes Aboriginal and Northern communities in our community and economic development efforts. For example, this Budget provides additional resources for winter roads to Manitoba's remotest communities. It also provides \$1 million to establish an Aboriginal Economic and Resource Development Fund for programs to address economic, cultural, recreational and social needs of Aboriginal communities.

A revitalized partnership with municipal governments is important in our efforts to create better and safer communities.

We will help an additional 12 communities provide sustainable municipal services and maintain infrastructure as part of our self-reliance initiative. To promote self-reliance and economic development, we are restoring core funding to Aboriginal organizations.

I am also pleased to announce that this Budget eliminates the \$50 fee charged to Northern patients who must be transported to southern health facilities for treatment.

Agriculture Initiatives

Our Government is committed to maintaining a viable and vibrant agricultural economy in Manitoba.

Last year, in addition to the \$60 million in the Budget, \$166 million more was provided in recognition of income and moisture problems in southwestern Manitoba.

This year, the Budget provides for improvement to the Crop Insurance Program. Coverage is extended for specialty crops, moisture insurance and a new flexible price option. This Program will provide protection to individual farmers and reduce the uncertainty associated with disaster assistance.

Prairie agriculture is going through a historic period of transition. Manitoba producers have made considerable progress in diversifying their operations. However, they face serious challenges. The loss of federal transportation support, unfair subsidies in the United States and the European Union, and low grain prices have strained the economic viability of our farmers. To address these issues, Manitoba communities are seeking opportunities to attract food-processing operations. This will enhance local economic activity, thereby providing economic opportunities for our young people in rural communities. The Provincial Government will work to support the agricultural community on all of these issues.

We have negotiated a new disaster aid program with the federal government to replace the AIDA program. We will continue our work on gaining stronger federal government commitments to prairie agricultural transition. Our Government has taken a proactive stance on assistance programs such as crop insurance, the Net Income Stabilization Account and disaster aid.

*Our government
is committed to a
viable and
vibrant
agricultural
economy.*



We recognize that an ageing population is an issue in the Manitoba farming community. To this end, we will introduce Project 2000, to assist young people to enter farming. In addition, we recently announced the Livestock Stewardship Initiative to ensure the sustainable expansion of the livestock industry.

We have also provided funding for the development of a rural agrometeorological weather network which will assist our producers in making critical decisions to reduce their risks.

Manitoba farmers have done much to build this province over the past century. They deserve our support as they strengthen and diversify their operations to meet the challenges of worldwide competition.

■ Responsible Tax Relief

Manitobans have told us they want a responsible and balanced approach to programs and taxation. They want important public services maintained and improved. And they are prepared to pay fair and reasonable taxes to support those services. Our Government is working diligently to achieve a sustainable balance between increasing resources in priority areas and providing responsible tax relief. Today's Budget is the first step toward achieving this balance.

Lower Property Taxes

In the election, we promised to increase the Property Tax Credit by \$75 this year. I am pleased to announce that today's Budget fulfils that commitment.

Both the maximum and minimum Property Tax Credits are increasing for all eligible homeowners and tenants.

Most homeowners will see the increased minimum Property Tax Credit – also called the Resident Homeowner Tax Assistance – as a reduction of \$325 off their municipal property tax bills.

On average, this provides a 3.3% reduction to Manitoba property taxpayers. For an average Winnipeg home, the additional \$75 represents a tax saving of 2.7%. For an average home in rural Manitoba, the saving is even higher at 4.8%. Manitoba now has the most generous property tax relief program delivered through the income tax system.

Our Government will achieve a sustainable balance between increasing resources in priority areas and responsible tax relief.

We are fulfilling our commitment to increase the Property Tax Credit.

*Our Government
will deliver
income tax relief
to Manitobans
totalling over
\$100 million
annually.*

*We will
simplify
Manitoba's
income tax.*

Income Tax Relief

Manitobans are already seeing significant income tax relief totalling \$50 million in this year alone. Basic Personal Income Taxes were cut on January 1, saving Manitoba taxpayers over \$40 million. In addition, we are reducing income taxes a further \$10 million because we are paralleling the tax base changes announced in the federal Budget. This year, Manitoba's top marginal Personal Income Tax rate is the third-lowest among provinces. Our Government is pleased to deliver this responsible and tangible tax relief to Manitobans.

In February, I announced that Manitoba, along with the other provinces, would begin to apply provincial income tax directly on taxable income, rather than on basic federal tax. This new system is more transparent and less complicated. And it provides us with the flexibility to integrate the Net Income Tax and the Surtax – which together raised about one-third of Personal Income Tax revenue – into the basic tax structure.

Our Government will deliver additional personal tax relief to Manitobans of \$68 million in 2001, and a further \$34 million in 2002 for an annual total of over \$100 million. Manitobans from all income groups and family sizes will benefit from these significant tax reductions.

- We are reducing taxes across the board by enhancing the non-refundable tax credits and adjusting tax brackets.
- We are providing more support to families with children through the new Family Tax Reduction.
- We are providing more support to persons living with disabilities in the Family Tax Reduction.
- We are removing 15,000 low-income Manitobans from the tax rolls.
- We are increasing the tax recognition for charitable donations.
- We will simplify Manitoba's income tax. The new system will have just three tax brackets. For 2001, the new system levies tax at 10.9% on taxable income up to \$30,544, 16.2% on income between \$30,544 and \$61,089, and 17.5% on the excess. For 2002, the rate on the middle bracket is reduced to 15.6% and the bracket is increased to \$65,000.
- We will eliminate use of a Net Income Tax and we will no longer have a Surtax.



I would like to provide some examples of the tangible tax relief today's Budget delivers for Manitobans.

- For a family of four with one income of \$40,000, Manitoba income tax falls by \$153 this year, \$421 next year and \$515 in 2002 relative to 1999. Their savings over the period: \$1,089.
- For a single senior with an income of \$20,000, taxes drop \$60 this year, \$192 next year and \$214 in 2002 compared to 1999. Over the three years, this senior will save \$466 in provincial income tax.
- For a single parent with earnings of \$20,000 and one child, Manitoba income tax drops \$76 this year, \$197 next year, and \$229 in 2002 compared to 1999. Over three years, this parent saves \$502 in income tax.
- For a two-income family at \$60,000, with two children, income tax falls \$194 this year, \$526 next year, and \$605 in 2002 relative to 1999. Their three-year income tax savings total \$1,325.

This tax relief means Manitoba remains one of the most affordable places to raise a family.

Reducing Small Business Taxes

Our Government is committed to seeing small businesses grow and prosper. The small business tax rate decreased to 7% this year, saving small business over \$6 million. I am pleased to confirm that we will proceed with the further reduction to 6% next year and to 5% on January 1, 2002.

Tobacco Tax

Both as a preventative health measure, and also as a revenue measure, we have increased the Tobacco Tax from 8.0 cents to 8.6 cents per cigarette. This brings Manitoba's rates in line with those in Saskatchewan.

Summary of Tax Relief

These tax measures will help to ensure that Manitoba continues to be one of the most affordable places in Canada to earn a living and raise a family.

Full details of the tax changes I have just announced are provided in Budget Paper C – Taxation Adjustments.

Manitoba's income taxes for a family of four, earning \$40,000, rank the fifth-lowest in Canada.

Budget 2000 is providing responsible tax relief for Manitoba families.

Manitoba is one of the most affordable places in Canada to raise children.

■ Balanced Budgets

This Budget is balanced.

For several years, the Provincial Auditor has recommended improvements to financial management and reporting practices. These recommendations were endorsed by the independent review of the fiscal position of the Province conducted by Deloitte and Touche. We are responding.

We will balance the Budget in 2000/01, while delivering increased investments in health and education, and while providing responsible tax relief for Manitobans.

- We will issue a single set of combined financial statements commencing this September. We will end the practice of describing withdrawals from the Fiscal Stabilization Fund as revenue.
- We will bring financing for health capital under the Provincial umbrella to reduce interest costs by over \$1.2 million annually.
- We will begin to address the Province's pension liability for our employees and teachers. This liability stands at an estimated \$2.8 billion today and would surpass the \$9 billion mark around 2030. We have to take action now to prevent this burden from falling on the shoulders of our young people. We are, therefore, broadening debt retirement provisions to deal with both pension liabilities and general purpose debt. We believe a balanced plan is required, and addressing both obligations will achieve real long-term benefits.

The Deloitte and Touche report also showed that, in the past two years, the Manitoba Government spent far more than it received in operating revenue. The 1999 Budget covered this shortfall with transfers from the Fiscal Stabilization Fund.

As shown in the Third Quarter Report, Manitoba received substantially more revenue than budgeted this past fiscal year. However, much of that revenue increase was simply a one-time catch up of payments from the federal government. Despite this, it was necessary to draw the budgeted \$185 million from the Fiscal Stabilization Fund to obtain a positive balance of \$5 million for the 1999/2000 fiscal year.

Our Government is committed to putting Manitoba's finances on a sustainable footing. We have already taken action in three areas with large overexpenditures identified by Deloitte and Touche – health, emergency farm aid and adult



Comparative Statement of Budgetary Revenue, Expenditure, Transfers and Balance

2000/01 and 1999/2000

	2000/01 Budget	1999/2000 3Q-Forecast	Increase/(Decrease) From 1999/2000 3Q-Forecast	
	(Millions of Dollars)	(Millions of Dollars)		%
Revenue				
Own-Source	4,487	4,251	236	5.6
Federal Transfers	1,927	2,082	(155)	(7.4)
Total Revenue	<u>6,414</u>	<u>6,333</u>	<u>81</u>	<u>1.3</u>
Expenditure				
Program				
Base	5,924	5,739	185	3.2
Extraordinary	0	219	(219)	N.A.
Total	<u>5,924</u>	<u>5,958</u>	<u>(34)</u>	<u>(0.6)</u>
Debt Servicing	474	480	(6)	(1.3)
Total Expenditure	<u>6,398</u>	<u>6,438</u>	<u>(40)</u>	<u>(0.6)</u>
Net Revenue/(Expenditure)	<u>16</u>	<u>(105)</u>	<u>121</u>	<u>115.2</u>
Interfund Transfers				
Debt/Pension Repayment	(96) ¹	(75)	(21)	(28.0)
Fiscal Stabilization Fund	90	185	(95)	(51.4)
Balance Under Balanced Budget Legislation	<u>10</u>	<u>5</u>	<u>5</u>	<u>100.0</u>

¹ Commencing in 2000/01, \$21 million from debt repayment allocation is applied to start funding pension obligations with Civil Service Superannuation Fund and Teachers Retirement Allowances Fund. This amount is sufficient to match the current service contributions for new employees (\$4 million) and apply \$17 million against the unfunded pension liability.

education. The 2000 Budget makes additional progress toward the goal of sustainability.

- Today's Budget proposes a draw from the Fiscal Stabilization Fund of \$90 million, less than one-half of the \$185 million draw in 1999/2000. This year, the entire \$90 million will be used for debt retirement.
- Today's Budget also projects a \$10 million positive balance, consistent with the provisions of the balanced budget legislation.
- The debt reduction plan, introduced in this Budget and detailed in Paper B, will address both the general purpose debt and the unfunded pension liability.
- Our Budget provides greater transparency and accountability as called for by the Provincial Auditor, and legislation will be strengthened to give effect to these matters.

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■ The Medium-Term Fiscal Framework

The economic outlook for Manitoba and Canada projects sustained growth over the medium term. Real average annual growth of the Manitoba economy between 2000/01 to 2003/04 is projected to be 2.3%, with nominal economic growth at 4.0%. Revenue is projected to grow at an average rate of 3.0% annually.

Program expenditure growth in our medium-term fiscal framework averages 2.8% annually. Public debt servicing remains stable. We have reduced reliance on the Fiscal Stabilization Fund and will continue to work toward eliminating the need for Fund draws.

Medium-Term Fiscal Framework

	1999/00	2000/01	2001/02	2002/03	2003/04
		(Millions of Dollars)			
Revenue	<u>6,332</u>	<u>6,414</u>	<u>6,565</u>	<u>6,781</u>	<u>7,013</u>
Expenditure					
Program Expenditure	<u>5,988</u>	<u>5,924</u>	<u>6,044</u>	<u>6,215</u>	<u>6,437</u>
Public Debt Costs	<u>482</u>	<u>474</u>	<u>475</u>	<u>475</u>	<u>475</u>
Total	<u>6,438</u>	<u>6,398</u>	<u>6,519</u>	<u>6,690</u>	<u>6,912</u>
Net Revenue/(Expenditure)	<u>(106)</u>	16	46	91	101
Interfund Transfers					
Debt/Pension Repayment	<u>(73)</u>	<u>(96)</u>	<u>(96)</u>	<u>(96)</u>	<u>(96)</u>
Fiscal Stabilization Fund	<u>185</u>	90	60	15	5
Balance Under Balanced Budget Legislation	1	10	10	10	10

1 3Q Forecast

The Medium-Term Fiscal Framework reflects current forecasts and assumptions. Should future circumstances depart from these, budget decisions will reflect these changes.



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Net Revenue/(Expenditure)	(105)	16	46	91	101
Interfund Transfers					
Debt/Pension Repayment	(75)	(96)	(96)	(96)	(96)
Fiscal Stabilization Fund	185	90	60	15	5
Balance Under Balanced Budget Legislation	5	10	10	10	10

¹ 3Q Forecast

The Medium-Term Fiscal Framework reflects current forecasts and assumptions. Should future circumstances depart from these, budget decisions will reflect these changes.

■ Conclusion

Mr. Speaker, Manitoba is a great place to raise a family. With this Budget, it will be even better. Today's Budget provides Manitoba with an even stronger competitive advantage that includes:

- public programs such as health care and education that are once again receiving priority attention;
- lower tuition fees for post-secondary education students who are training for the jobs and opportunities of today's economy;
- affordable housing and vehicle operating costs that are among the lowest in North America;
- the lowest hydro rates in North America;
- a low unemployment rate; and
- lower, competitive personal taxes for low- and middle-income families.

When major taxes and other significant costs are added up, a typical Manitoba family has among the lowest taxes and living costs in the country.

Our Government has taken a responsible and balanced approach to budgeting in order to respond to the priorities of today's Manitoba families. Today's Budget:

- provides significant new investment in health and education;
- takes measures to develop our communities and our economy; and
- provides sensible property tax and income tax relief, with the benefits targeted to Manitoba families.

On top of all this, the Budget is balanced. And, it provides the first long-term plan to address all our liabilities, including debt repayment and unfunded pension liabilities.

Improving the lives of Manitoba families is at the heart of today's Budget. Our Government is keeping our five commitments to Manitobans. And, we will continue to be responsive to Manitobans' needs and remain focussed on their priorities in the years to come.



Budget Paper A

**THE
ECONOMY**

THE ECONOMY

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CANADIAN ECONOMY

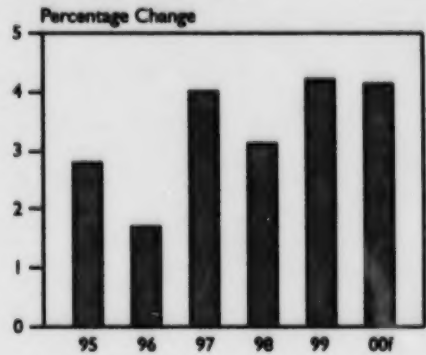
Canada's economy grew by 4.2% in real terms in 1999, one of the strongest increases among G-7 countries. This was also the Canadian economy's best performance since 1994 (see Chart 1). Overall growth benefited from strength in several areas, including exports, consumer spending and business investment.

Despite continuing weakness in Japan's economy, the general economic recovery in Asia in 1999 was much stronger than forecast earlier in the year. The increased economic stability and brighter prospects for growth promoted by the Asian recovery facilitated more vigorous expansion in many of Canada's external markets, especially the United States. Strong real growth in the U.S. of 4.2% propelled Canadian exports, with merchandise shipments to the U.S. up 14.2% last year. The modest increase in the value of the Canadian dollar relative to the U.S. currency in 1999 did not appear to dampen U.S. demand for Canadian goods.

At the same time, Canada's strong employment and personal income growth in 1999 contributed to higher levels of consumer spending. Real personal expenditure grew 3.2%, led by a 7.2% increase in spending on durable goods (automobiles, furniture, etc.).

Vigorous employment growth of 2.8% – the highest annual increase since 1988 – helped push down Canada's unemployment rate to 7.6% in 1999. In 1999, Canada's economy created over 390,000 jobs, and posted its lowest annual unemployment rate since 1989. A survey of seven private forecasts, compiled by Manitoba Finance, suggests that Canada's employment prospects remain strong, with 2.8% growth projected for 2000 (see Chart 2).

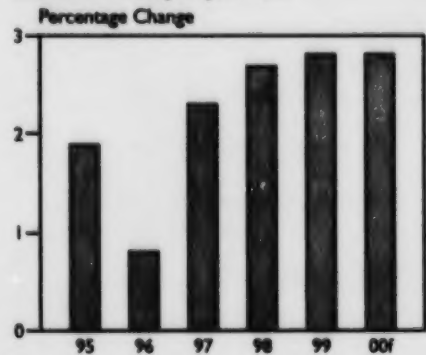
Chart 1
Canada Real Gross Domestic Product



f - Forecast

Sources: 1995-1999: Statistics Canada
2000: average of seven private sector forecasts

Chart 2
Canada Employment

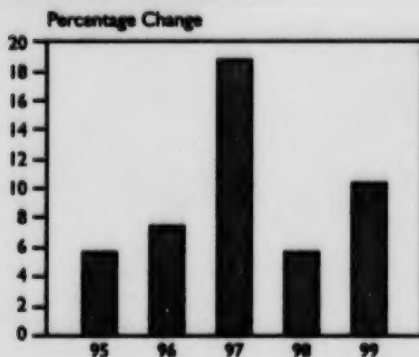


f - Forecast

Sources: 1995-1999: Statistics Canada
2000: average of seven private sector forecasts

*Real business investment
in machinery and
equipment increased 14.9%,
as businesses continued to
invest heavily in computers
and other office equipment.*

Chart 3
**Canada Non-Residential
Business Investment**



Source: Statistics Canada

The turnaround in the prices of some of Canada's main natural resource commodities, as well as good growth in the U.S. market, had a strong positive effect on business sector performance. Overall, corporate profits increased 25.2% last year after slipping 6.0% in 1998. Real non-residential business investment increased 10.4% (see Chart 3). Real business investment in machinery and equipment increased 14.9%, as businesses continued to invest heavily in computers and other office equipment. Non-residential business construction also bolstered output of construction industries, which saw 3.8% growth after a very weak 1998.

Much of the strength in Canada's economy in 1999 was linked to manufacturing. Real manufacturing output rose 6.3%, up from 3.9% growth in 1998. Among Canada's manufacturing industries, the strongest gains in real output were posted by telecommunications equipment (+35.7%), computers and peripherals (+27.4%), and motor vehicles (+22.4%).

Despite sharp increases in energy costs associated with rising oil prices, inflation, as measured by the Consumer Price Index (CPI), increased only 1.8% in 1999. While the inflation rate was up from 1.3% in 1998, it remained in the middle of the Bank of Canada's 1-3% inflation control target range. The survey of seven private forecasters, conducted by Manitoba Finance, projects Canada's inflation rate at 2.4% for 2000.

While actual price inflation remained subdued through 1999, U.S. monetary authorities continued to be concerned about tight labour supply and potential wage and price inflation. To reduce potential inflationary pressures, the U.S. Federal Reserve has boosted interest rates over the last six months, and the Bank of Canada has responded by boosting the Canadian Bank Rate to match the increases.

The value of the Canadian dollar increased from an average of US\$0.658 in January 1999 to US\$0.679 in December 1999. Over the first four months of 2000, the Canadian dollar has traded between US\$0.673 and US\$0.697. Both higher interest rates and the stronger Canadian currency have resulted in tighter monetary conditions in Canada over the past year (see Chart 4).

Canada has now entered its ninth consecutive year of economic expansion, and prospects for continued economic growth in 2000 remain strong. According to the survey of seven private economic forecasters, Canada's real GDP growth is expected to remain relatively unchanged in 2000 at 4.1%.

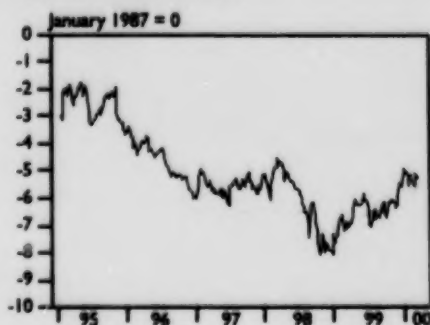
MANITOBA ECONOMY

Manitoba's economy grew 2.2% in 1999. Weaker non-U.S. exports, a depressed field crop industry, and weak demand for agricultural machinery combined to slow the economy's growth. The Manitoba Bureau of Statistics estimates that real GDP at Market Prices grew 2.2% in 1999, down from a 3.3% increase in 1998 (see Chart 5).

Declines in agriculture, mining, and utilities combined to reduce real GDP in Manitoba's goods-producing industries by 0.7%. Real output in Manitoba's largest goods-producing industry, manufacturing, was up only 1.2%. Conversely, real output in the service sector, which accounts for 70% of Manitoba GDP, increased by 3.5%. Growth among service industries was widespread, with each of Manitoba's 14 service industries posting increases in output last year.

Manitoba continued to experience tight labour markets in 1999. The unemployment rate was 5.6%, up slightly from 5.5% in 1998. Manitoba posted the lowest unemployment rate among Canadian provinces in both 1998 and 1999. Manitoba's unemployment rate is expected to decline further to

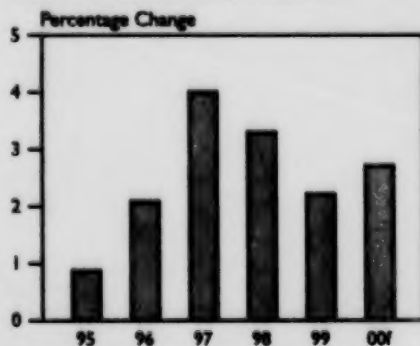
Chart 4
Canada Monetary Conditions Index



Source: Bank of Canada

Note: The index is a weighted average of interest rates and the exchange rate.

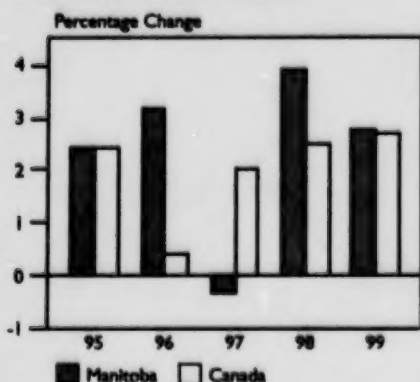
Chart 5
Manitoba Real Gross Domestic Product



f - Forecast

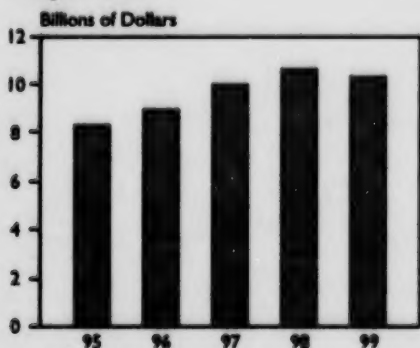
Sources: 1995-1999: Manitoba Bureau of Statistics
2000: average of seven private sector forecasts

Chart 6
Personal Disposable Income
Growth Per Capita,
Manitoba and Canada



Sources: Manitoba Bureau of Statistics
 and Statistics Canada

Chart 7
Manitoba Manufacturing
Shipments



Source: Statistics Canada

5.3% in 2000, based on the survey of seven private forecasters. Total employment is expected to increase 1.7% in 2000, after 1.3% growth in 1999.

Manitoba's growth in per capita personal disposable income outpaced Canada's for a second consecutive year. Per capita disposable income in Manitoba increased 2.8% after 3.9% growth in 1998 (see Chart 6). Real personal expenditure increased 2.1%, up from 1.6% growth in 1998.

Total capital investment increased 3.3% in 1999, the eighth straight year of investment growth. Both public and private investment increased. Real spending on machinery and equipment by business advanced 13.9%.

Manufacturing shipments declined 2.6% as shipments of machinery, Manitoba's third-largest manufacturing industry, fell by almost one-third. Weak demand for agricultural machinery was principally responsible for this sharp decline.

Manitoba's inflation rate in 1999, as measured by the Consumer Price Index, was 2.0%, slightly above Canada's CPI increase of 1.8%. The survey of private forecasters shows the expected Manitoba CPI increase in 2000 is 2.2%.

In 1999, preliminary data for foreign exports shows Manitoba's export trade was down slightly after several years of very strong growth. A sharp 27.1% decline in the value of non-U.S. foreign merchandise exports more than offset the brisk 6.9% growth in export sales to the United States.

While the rate of economic growth in Canada is projected to decline modestly in 2000, a survey of seven private forecasters shows that Manitoba's real GDP growth is expected to increase to 2.7%. Nominal growth is projected at 4.7%. Factors responsible for the higher expected growth include renewed growth in manufacturing shipments, a stable-to-positive outlook for grains and oilseeds, and significantly improved prospects for Manitoba's mining industry.

■ Manufacturing

Manufacturing is Manitoba's largest goods-producing industry, contributing about 14% to total provincial GDP. Manufacturing also accounts for two-thirds of merchandise exports, or approximately \$5.3 billion. Manitoba's manufacturing sector is highly diverse, and includes a broad range of consumer and industrial goods.

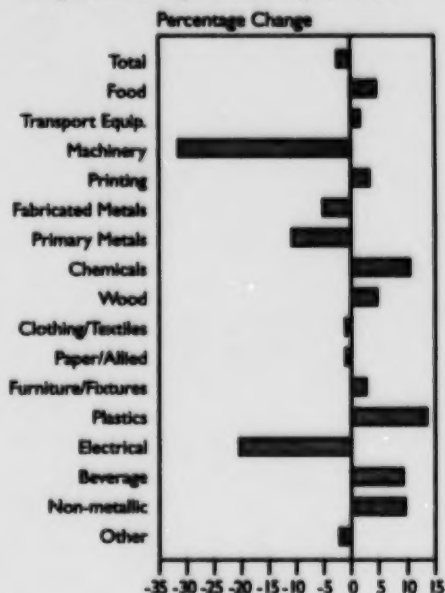
After seven consecutive years of growth, Manitoba's manufacturing shipments declined 2.6% in 1999. Weak demand for agricultural machinery drove down overall machinery shipments by 31.4% in 1999. Machinery is the province's third-largest manufacturing industry (see Chart 7).

Shipments by most other manufacturing industries increased. Nine of the remaining 15 manufacturing industries posted increases last year, led by plastics (+13.5%) and chemicals (+10.4%) (see Chart 8).

Manitoba's largest manufacturing industry, food processing, recorded a 4.4% increase in shipments in 1999. Over the past several years, food processing in Manitoba has diversified substantially, and now includes a wide variety of processed meat, dairy, vegetable, and grains/oilseeds products. In September 1999, Maple Leaf Foods opened a large new hog processing facility in Brandon. Once operating at full capacity, this facility will directly employ about 2,000 people.

While capital investment in Manitoba's manufacturing sector has increased sharply since the early 1990s, Statistics Canada's Survey of Public and Private Investment shows investment in manufacturing is estimated to have declined 2.7% in 1999. In 2000, the Survey projects manufacturing investment will rebound with an increase of 13.6% (see Chart 9).

Chart 8
Manitoba Manufacturing Shipments by Industry*, 1999



Source: Statistics Canada

* Ranked by size in descending order.

Chart 9
Manitoba Manufacturing Investment

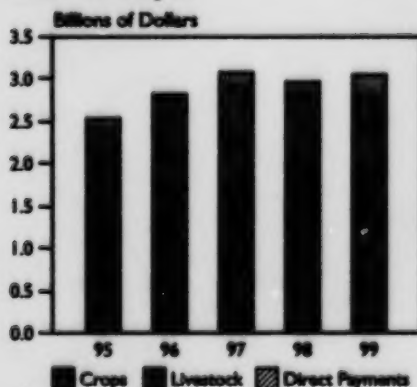


p - Preliminary i - Intentions

Source: Statistics Canada

Increased manufacturing investment and higher levels of manufacturing shipments over the past several years have been accompanied by strong growth in manufacturing employment. In 1999, Manitoba's manufacturing employment grew 2.9%, more than double the rate of growth for overall employment. Over the last five years, manufacturing employment has increased by 23.1%. Manufacturing employed 64,500 last year and accounted for 11.9% of total employment. This was the highest ratio among Canada's Western provinces.

Chart 10
Manitoba Farm
Cash Receipts



Source: Statistics Canada

■ Agriculture

Like the economy overall, Manitoba's agriculture sector is highly diversified. In 1999, livestock production accounted for 46% of market receipts, while crops accounted for 54%. Within these sectors, Manitoba producers market a wide variety of livestock and crops. Agriculture directly accounts for 20% of Manitoba's total foreign exports.

Total farm cash receipts from market fell 1.3% in 1999. This decline was more than offset by an increase in direct payments to producers, which rose to \$211.7 million from \$92.2 million in 1998. Overall, farm cash receipts increased 2.8% (see Chart 10).

1999 was a poor year for Manitoba crop producers with crop receipts down 7.2%. Receipts from wheat production rose 6.4%, offsetting part of the 27.5% decline in 1998. While total seeded hectares in 1999 were down, average yields per hectare were up slightly. World wheat supplies continue to be large after three consecutive good crops. Wheat prices in the current crop year are

10% below last year's levels. Higher volumes of production in many areas of the world will likely continue to constrain the recovery of wheat prices in 2000.

Farm cash receipts for canola, Manitoba's largest crop in 1998, fell by 41.2% last year as excess world supply of vegetable oils pushed down canola prices. Local prices for canola fell by about one-third since summer 1998. Manitoba producers reduced seeded area of canola by 9.8% in 1999. Combined with slightly stronger yields, this resulted in a 5.3% decline in total canola production last year.

While crop producers had a weak 1999, livestock producers in Manitoba fared better. Total livestock receipts climbed 6.7% to \$1.3 billion, the fifth consecutive annual increase.

Receipts from hog production continued to grow, up 16.9% from 1998. Hog prices recovered slightly in 1999 after a significant decline in 1998. Meanwhile, marketings of Manitoba-origin hogs increased an estimated 18.4%. Of the 4.7 million hogs produced in Manitoba in 1999, about 2.3 million were exported to the U.S.

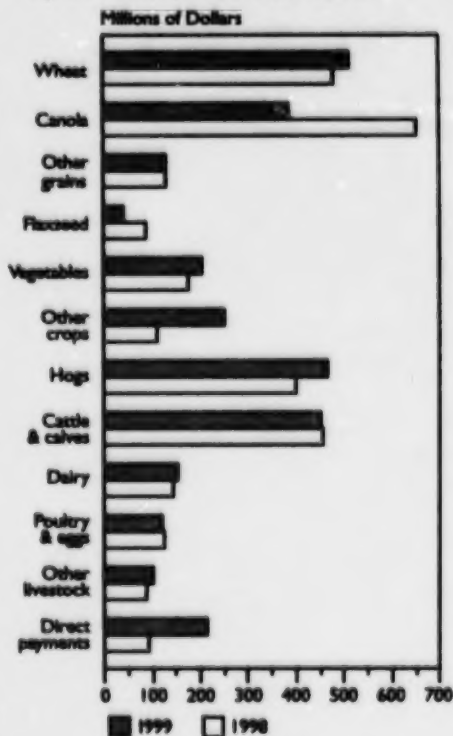
Receipts from cattle and calves were down slightly in 1999, with marketings of Manitoba-origin slaughter cattle continuing to decline. Overall, producers enjoyed higher prices last year, with prices for Grade A steers up 5.0% from 1998.

Prices for both cattle and hogs are projected to increase in 2000.

The Manitoba Bureau of Statistics estimates that Manitoba's farm producers' accrued net income of operators' farm production fell by 44.6% in 1999. Total real GDP in agriculture declined 3.5% in 1999.

Chart 11

Manitoba Farm Cash Receipts by Product, 1999 and 1998



Source: Statistics Canada

Chart 12
Manitoba Mineral Production

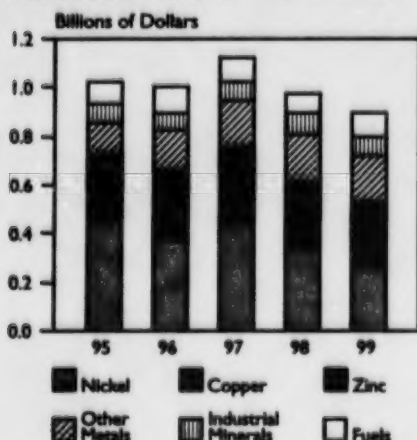
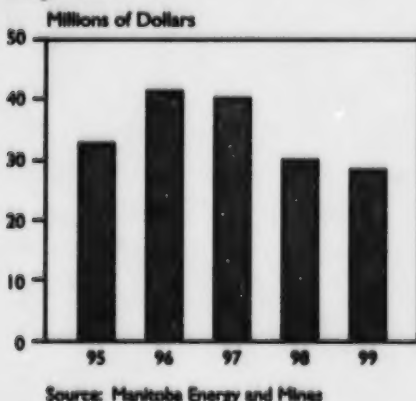


Chart 13
Manitoba Mining Exploration Expenditure



■ Mining

The value of mineral production in Manitoba declined 7.7% in 1999 to \$892.7 million. This was the second consecutive annual decline in the value of mineral output (see Chart 12).

Metal production declined 11.7% in 1999, principally due to a 20.6% decline in the value of nickel production. At \$271.4 million, nickel accounted for 30% of the value of mineral production in Manitoba last year.

While nickel prices rose sharply in 1999, the volume of production declined 35.8%. This reduction was largely due to a labour dispute at Inco's Manitoba Division in Thompson. The dispute was resolved in December 1999.

Zinc and copper, respectively, are the second and third most significant metals produced in Manitoba. The value of production of each of these minerals was essentially unchanged last year from 1998 levels.

Modest declines in both the price and volume of gold pushed down the total value of Manitoba gold production 6.1% in 1999. Gold accounts for 12% of Manitoba mining production. New gold mining facilities in Manitoba have helped boost the value of gold production by 150% over the last five years.

Industrial mineral production, including gravel, lime and gypsum, declined 3.7%. While relatively small, the value of oil production increased 31.9% to \$97.5 million as the world price of oil escalated dramatically last year.

Mineral exploration expenditures in the province last year are estimated at \$28.3 million, down from approximately \$30 million in 1998 and \$40.3 million in 1997. Weak metals prices for the past several years are principally responsible for the decline in exploration spending (see Chart 13).

According to a 1999 study by the Fraser Institute, Manitoba was the fourth best jurisdiction for mining investment among 35 mining jurisdictions considered worldwide. The study surveyed over 100 mining and mineral exploration companies with respect to jurisdictions' investment attractiveness.

■ Hydro-Electricity

The value of hydro sales increased 4.4% in 1999. This was the twelfth consecutive annual increase in sales (see Chart 14).

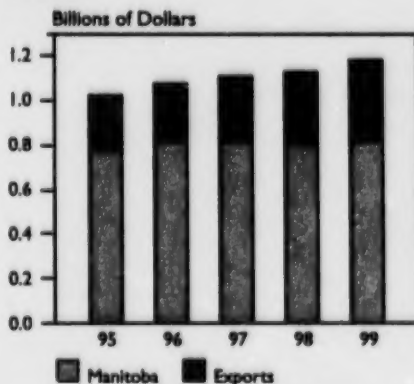
Total export sales increased by 13.0% to a new record high of \$363.3 million. Higher exports to Ontario are principally responsible for the increase. Export sales to the U.S. account for \$274.1 million, or 75%, of Manitoba's hydro-electricity exports.

Over the past decade, the value of hydro-electricity export sales increased 442% while sales to customers in Manitoba increased 21%. In 1999, export revenue accounted for 30.8% of total revenue, up from 9.1% in 1990.

Manitoba hydro-electricity rates continue to be among the lowest in North America.

While Canada's electricity industry was responsible for 16% of the annual national production of greenhouse gases, almost all of Manitoba Hydro's electricity is produced by water-powered hydraulic generating stations. In total, Manitoba Hydro produced only a tiny fraction of Canada's greenhouse gases. As Canada moves forward in meeting its commitments to greenhouse gas reduction made in Kyoto, Manitoba Hydro may play an important role by producing even more of North America's electrical energy through environmentally desirable hydro-electric energy generation.

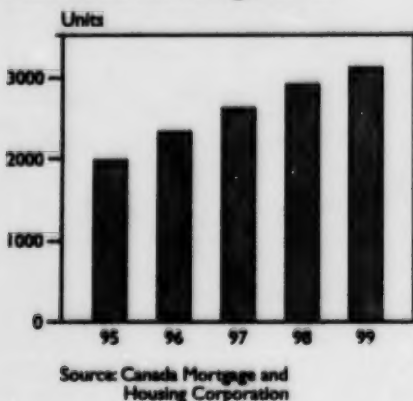
Chart 14
Manitoba Hydro-Electricity Sales



Source: Manitoba Hydro-Electric Board

In March 2000, the Pembina Institute, a leading environmental think tank, named Manitoba Hydro the top performer among Canadian electrical utilities in the fight against climate change.

Chart 15
Manitoba Housing Starts



Housing

Manitoba's housing starts increased for the fourth consecutive year in 1999. Total housing starts increased 8.2% over 1998, slightly below the national growth rate of 9.1%.

At 3,133 units, 1999 housing starts in Manitoba were at their highest level since 1994 (see Chart 15).

Housing starts in urban centres increased 12.8% last year, above the national average of 8.8%. About 85% of urban starts were in Winnipeg. At 2,094 units, Manitoba's total urban housing starts were at their highest level since 1990.

Currently, Canada Mortgage and Housing Corporation projects that housing starts will decline 9.2% in 2000, largely as a result of a decline in the construction of multiple units (apartments, condominiums, etc.).

Retail Sales

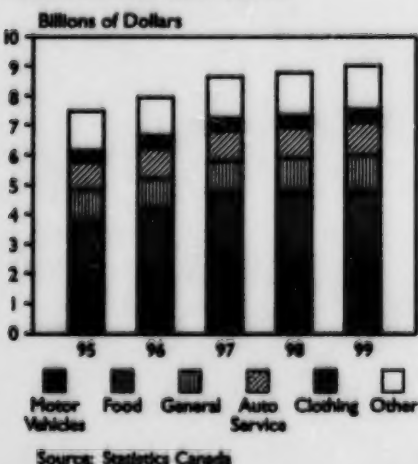
The value of retail sales reached \$9.0 billion in 1999, a 2.9% increase, following 2.1% growth in 1998 (see Chart 16).

Manitoba's retail sales growth benefited from strong increases in motor vehicle sales between 1994 and 1997. However, motor vehicle sales increased only 1.6% in 1998, and declined slightly in 1999.

Appliance and furniture sales continued to grow briskly, buoyed by the ongoing strength in Manitoba's housing market. Furniture and appliance sales were up 6.7% in 1999, after a 7.1% increase in 1998.

The weakness in many elements of Manitoba's primary commodity industries is reflected in the differences between Winnipeg retail sales performance and retail sales in rural Manitoba last year. In 1999, retail sales in Winnipeg grew 5.7%, while retail sales outside Winnipeg actually declined 1.3%.

Chart 16
Manitoba Retail Sales



■ Tourism

Manitoba's tourism and hospitality sector experienced solid growth in 1999. In July and August, Manitoba hosted the Pan American Games, the largest multi-sport event ever held in Canada. Spending on services was particularly strong with good growth in such services as recreation, entertainment and travel, and helped push overall service sector growth up 3.5% in real terms.

In 1999, tourism expenditure rose 1.9%, buoyed by increased U.S. and other foreign visitors. The relatively low value of the Canadian dollar also continued to assist in attracting U.S. and other foreign visitors. The number of direct U.S. visitors rose 3.9% last year. Same day travel by U.S. visitors increased 5.9%, and overnight visitors increased by 1.5%. The Manitoba accommodation occupancy rate was 72.2%, the highest in Canada.

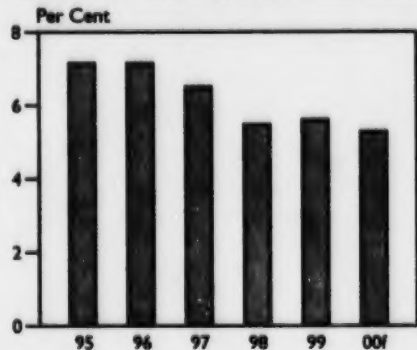
■ Labour Markets

Manitoba's unemployment rate increased slightly to 5.6% in 1999 from 5.5% in 1998. Nevertheless, tight labour supply conditions continued to prevail. Manitoba has had the lowest unemployment rate in Canada over the last two years (see Chart 17).

Along with Canada's lowest overall unemployment rate, Manitoba's youth unemployment rate was the lowest in Canada in 1999. At 10.1%, the youth unemployment rate was down from the 1998 rate of 10.4%, and well below Canada's rate of 14.0%.

Employment growth slowed to 1.3% in 1999 from 1.9% growth in 1998 (see Chart 18). Full-time employment increased 1.2% last year, below Canada's growth of 3.3%. Part-time employment was up 1.6%, ahead of Canada's part-time employment growth of 0.3%.

Chart 17
Manitoba Unemployment Rate

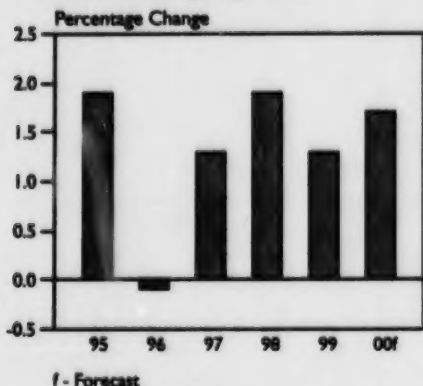


f - Forecast

Sources: 1995-1999: Statistics Canada
2000: average of seven private sector forecasts

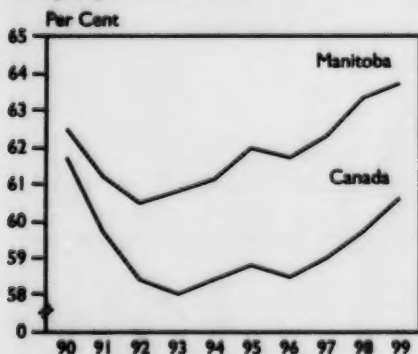
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Chart 18
Manitoba Employment



Sources: 1995-1999: Statistics Canada
2000: average of seven
private sector forecasts

Chart 19
Manitoba and Canada Employment Rate



Source: Statistics Canada

Service-producing industries accounted for all of the growth in employment in 1999, while employment in the goods sector actually declined. Overall, employment in service-producing industries increased 2.0%, while employment in the goods-producing industries fell 0.6%.

The survey of seven private sector forecasters shows that Manitoba's employment is expected to increase by approximately 9,200, or 1.7%, in 2000. The survey also shows Manitoba's unemployment rate is expected to decline to 5.3% in 2000.

Manitoba's participation rate increased last year to a historically high level of 67.5%. Manitoba's low unemployment rate continued to encourage growth in labour force participation. Manitoba's employment rate – the ratio of employment to total working-age population – increased to 63.7%, also the highest level on record (see Chart 19). Both Manitoba's employment rate and labour force participation rate are second highest among the provinces.

■ Population

In 1999, Manitoba posted its strongest population growth in four years. Total population grew 0.5%, up significantly from 0.1% growth in 1998. The official July 1 population was estimated at 1,143,400.

The principal reason for the stronger population growth in 1999 was a sharp decrease in net interprovincial out-migration.

Total net migration, including all categories of migration to and from Manitoba, was positive for the first time since 1985 (see Chart 20). Last year, overall migration boosted Manitoba population by 1,846 persons.

In 1999, net interprovincial migration from Manitoba to other provinces was 950 persons, down significantly from 2,901 persons in 1998. In

total, 19,605 persons left Manitoba for other provinces, while 18,665 persons moved to Manitoba from other provinces. This was Manitoba's lowest interprovincial net out-migration since 1984.

About three-quarters of the total number of people who migrate from province to province in Canada are working-age individuals. On average over the last three years, 74.3% of out-migrants from all provinces have been 15-64 years old, slightly higher than Manitoba's 73.0%. Likewise, young working-age persons (ages 15-24) account for approximately 24.0% of Canada's out-migrants to other provinces, about the same as Manitoba's.

Manitoba also received more international net migration in 1999. Net international immigration last year was 2,101, up from 1,401 in 1998. International immigration to Manitoba in 1999 was 3,715 persons, 2.0% of the total international immigration to Canada. 1,614 persons emigrated from Manitoba to other countries, about 2.9% of the national total. Miscellaneous migration, including movement of foreign non-permanent residents to and from Manitoba, increased Manitoba population by a further 695 persons.

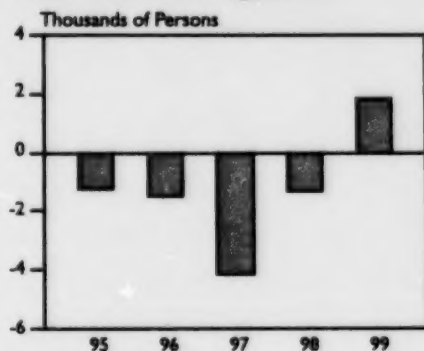
■ Investment

Total capital investment in Manitoba is estimated to have increased 3.3% in 1999, according to Statistics Canada's Survey of Public and Private Investment (see Chart 21).

Both public and private capital investment increased last year. Public investment, which accounted for about one-fifth of total investment in Manitoba, increased 8.7%. Private investment increased 1.8%. In 1999, manufacturing investment declined 2.7% after a 13.8% decrease in 1998.

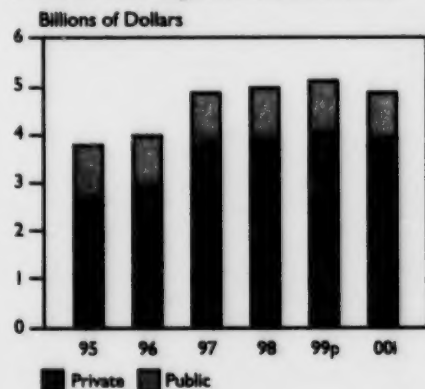
Among Manitoba's industries, health and social services, and retail trade, had the highest increases. Education services and miscellaneous services had the largest declines.

Chart 20
Manitoba Net Migration



Source: Statistics Canada

Chart 21
Manitoba Capital Investment



Source: Statistics Canada

"High levels of business investment in conjunction with strong consumer confidence, have contributed to strong economic expansion and diversification. Manufacturing now accounts for an increasing share of economic activity which enhances the province's resilience."

**Moody's Investors Service
November 1999**

For 2000, Statistics Canada's investment survey indicates that total investment is expected to decline 5.0% from 1999 levels. Public investment is projected to drop 16.2%, while private investment is projected to decline by 1.9%.

The total value of building permits issued in Manitoba in 1999 declined 14.8% to \$879.4 million. Virtually all of the reduction in the value of building permits issued was accounted for by industrial building permits, which declined from \$236.9 million in 1998 to \$107.8 million in 1999. The lower value of building permits issued reflected the completion of a number of major industrial construction projects in 1998. The value of building permits issued in 1999 was the second highest on record.

The following are some examples of investment projects being undertaken at this time, or expected to commence in 2000.

Schneider Corporation will invest \$125 million in a new hog processing plant expansion. The construction of a state-of-the-art production facility in Winnipeg will create 1,100 ongoing jobs.

Vansco Electronics, a Manitoba firm which currently employs 500 persons in the manufacture of electronics components, is undertaking a \$12.4 million plant expansion. Once completed, the expansion will create another 340 new jobs.

Inco Ltd. will be investing \$70.4 million over the next two years in the expansion of the Thompson Birchtree Mine. The investment will both extend the life of the mine by 15 years, and increase the daily output.

Loewen Windows plans a \$20 million expansion of its Steinbach manufacturing plant, and the creation of an additional 250 positions. The company is currently Canada's largest manufacturer of wood-framed windows, and has 700 employees in Manitoba.

SMARTpark, a research park development at the University of Manitoba, is expected to begin

operation by the end of the year. The initial cost of SMARTpark is \$5.6 million. It will bring together academia and industry, and will focus on areas of strength at the University and the province, including information technology, telecommunications, agricultural and pharmaceutical biotechnology, and advanced materials.

Manitoba Hydro will invest \$180 million in a new 225-megawatt turbine plant in Brandon. The plant will use natural gas, a much cleaner option than coal, and will be operational in early 2002.

■ Foreign Markets

Preliminary trade data shows that total foreign exports declined 1.5% in 1999. This was the first year since 1989 that the value of annual foreign exports fell (see Chart 22).

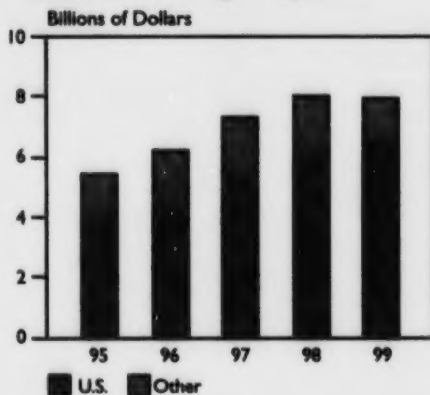
Non-U.S. exports declined 27.1% last year, more sharply than the national reduction of 5.8%. The decline comes after a period of very strong and sustained growth in non-U.S. exports. The reduction in exports was led by Manitoba's Asian markets, principally Hong Kong (-84.9%), Malaysia (-53.6%) and Taiwan (-47.7%). In 1999, non-U.S. exports accounted for 18.3% of Manitoba's total foreign exports.

While non-U.S. exports fell, exports to the U.S. increased by 6.9%. Overall in 1999, 81.7% of Manitoba's exports were destined for the U.S., slightly below the national average of 86.8% (see Chart 23).

Foreign exports have accounted for a growing share of total output in Manitoba over the past several years. In 1999, it is estimated that foreign exports were equal to 29% of GDP, up from 24% five years ago. Approximately two-thirds of total foreign commodity exports are manufactured goods. Agriculture is also another major export-oriented Manitoba industry, accounting for 19.7% of total foreign exports.

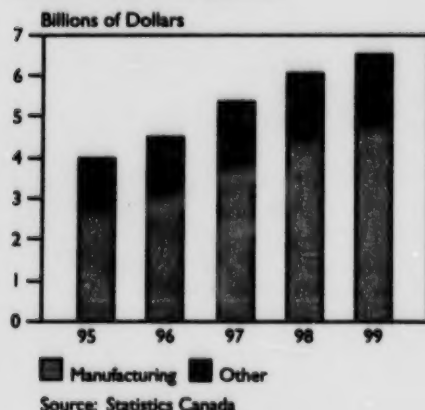
Approximately two-thirds of total foreign commodity exports are manufactured goods. Agriculture is also another major export-oriented Manitoba industry, accounting for 19.7% of foreign exports.

Chart 22
Manitoba Foreign Exports



Source: Statistics Canada

Chart 23
Manitoba Exports
to the United States



Manitoba's foreign exports reflect a diverse mix of products. A broad range of manufactured industrial and consumer goods is reflected among the province's main commodity exports. Transportation equipment – principally intercity and urban buses, and aerospace equipment – is Manitoba's major foreign export. Other major products exported include grains and oilseeds, metals, machinery, and hydro-electricity.

■ Manitoba Economic Outlook

Manitoba's economy is poised for stronger growth in 2000. Continuing strength in the Canadian and U.S. economies, and a positive outlook for Manitoba's commodities industries, will likely result in stronger gains in employment and output.

The Manitoba Outlook survey of seven private forecasts shows real GDP growth is expected to be 2.7% in 2000 and 2.6% in 2001. Employment growth is forecast to be stronger in both 2000 and 2001. Manitoba's unemployment rate is expected to decline to 5.3% in 2000 and 5.2% in 2001.

Risks to the Manitoba Outlook include a substantial increase in interest rates, a slowdown in the economies of Manitoba's domestic and international trading partners, and a deterioration in prices for Manitoba's major commodity products.

Manitoba Outlook at a Glance

	1999	2000	2001
	(Percentage Change Except as Noted)		
Gross Domestic Product			
Nominal	3.8	4.7	4.4
Real	2.2	2.7	2.6
Employment	1.3	1.7	1.4
Unemployment Rate (%)	5.6	5.3	5.2

Sources: 1999 are actual, 2000 and 2001 are average of private sector forecasts.

Manitoba Foreign Exports

BY INDUSTRY	1995	1996	1997	1998	1999	1999 Share
	(Millions of Dollars)					(%)
Manufacturing						
Transportation						
Equipment	569.3	636.2	749.7	1,048.1	1,229.5	15.5%
Food and Beverage	385.2	547.0	665.9	1,043.0	754.1	9.5
Primary Metals	412.9	358.6	551.5	716.0	608.1	7.7
Wood	184.6	207.1	266.8	351.8	505.5	6.4
Machinery	627.2	625.2	766.1	718.4	502.7	6.3
Chemicals	65.7	116.3	131.1	232.0	334.1	4.2
Paper and Allied	265.1	235.1	237.4	236.2	240.6	3.0
Electrical	170.5	232.4	296.5	303.7	235.6	3.0
Plastics	87.4	98.7	109.8	137.4	170.0	2.1
Clothing and Textiles	70.4	85.3	117.0	136.5	157.7	2.0
Furniture and Fixtures	79.9	102.8	132.1	131.1	128.0	1.6
Printing	44.1	46.5	65.3	92.9	101.1	1.3
Other Manufacturing	196.0	222.7	254.0	257.8	294.7	3.7
Total Manufacturing	3,158.3	3,513.9	4,343.2	5,404.9	5,261.7	66.2
Agriculture	1,463.5	1,723.6	2,019.1	1,773.7	1,561.8	19.7
Electricity	279.9	284.8	309.8	356.2	351.3	4.4
Other Primary	402.9	534.5	479.2	354.3	548.0	6.9
Other Exports	150.9	162.8	162.6	177.9	222.9	2.8
Total Exports	5,455.5	6,219.6	7,313.9	8,067.0	7,945.7	100.0
BY DESTINATION						
United States	3,957.0	4,508.7	5,381.5	6,068.5	6,489.5	81.7
Japan	351.9	364.2	435.9	403.5	378.6	4.8
China	244.7	243.8	147.6	228.3	156.4	2.0
Mexico	71.1	87.2	93.3	141.1	103.8	1.3
Other Countries	830.8	1015.7	1255.6	1225.6	817.4	10.3
Total Exports	5,455.5	6,219.6	7,313.9	8,067.0	7,945.7	100.0

Source: Statistics Canada

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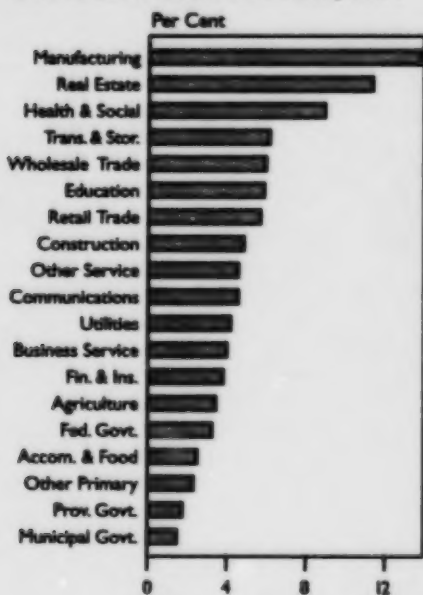
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Chart 24
**Shares of Manitoba
 Gross Domestic Product, 1999**



Source: Manitoba Bureau of Statistics

THE MANITOBA ECONOMY: STRENGTH IN DIVERSITY

Manitoba's \$31 billion economy is among the most diverse in Canada. While agriculture, mining and other primary commodity industries have long played a major role in Manitoba's economic growth, the relative importance of other new industries has grown. Diversity serves to provide greater stability for Manitobans in the face of changing economic conditions (see Chart 24).

Developments in primary commodity industries – such as agriculture, mining, and forestry – have expanded the variety of products made in Manitoba. The variety of goods produced by Manitoba's manufacturing sector has benefited from a significant increase in investment since the early 1990s. New facilities, new products and new markets have all contributed to more rapid growth and diversification in the manufacturing sector.

As a share of the economy, manufacturing has grown rapidly, and now accounts for 13.8% of provincial output, up from 12.2% just five years ago. This is the largest increase in GDP share of any industry in Manitoba. Likewise, manufacturing accounts for 11.9% of total provincial employment; this is much higher than the total employment in Manitoba's resource industries which, altogether, account for only 1.3% of total employment.

The growing importance of the higher value-added industries is illustrated by the composition of Manitoba's foreign commodity exports. Over the last five years, the share of primary commodities relative to total foreign exports has declined from 35% in 1994 to 27% in 1999. Meanwhile, manufacturing exports have climbed from 57% to 66% of foreign exports over the same period.

One of the factors that has provided Manitoba with strong economic stability is the relatively large service sector. Service-producing industries account for 70% of GDP, which is higher than the Canadian average of 67%.

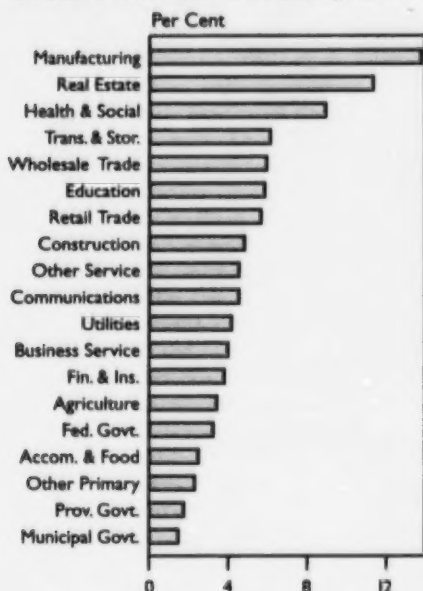
Manitoba's large service sector tends to be less susceptible to fluctuations through the business cycle than most goods-producing industries. The province is home to many major service sector operations, including the head offices of Canada's largest life insurer, and Canada's largest mutual fund company, the Canadian Wheat Board, CanWest Global Communications, and several of Canada's major trucking companies. Overall, service-producing industries account for 73% of total employment in Manitoba.

Scientific and technological research and innovation are now playing a more significant role in Manitoba's economy. Manitoba is home to the National Research Council's Institute for Biodiagnostics, and Canada's Centre for Disease Control Virology Lab. The province has also become a locus of research activity in a number of important areas, including medicine, engineering, and agri-foods.

New developments, such as the SMARTpark research park at the University of Manitoba, will further promote research and innovation in the province. Manitoba currently has the fourth-highest research and development intensity rate among Canadian provinces.

Manitoba's large service sector tends to be less susceptible to fluctuations through the business cycle than most goods-producing industries.

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Shares of Manitoba
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Manitoba Economic Statistics, 1995 to 1999

	1995	1996	1997	1998	1999
	(Millions of Dollars)				
SECTORS					
Farm Cash Receipts	2,523	2,816	3,065	2,946	3,029
Crops	1,440	1,648	1,721	1,640	1,523
Livestock	963	1,111	1,202	1,214	1,295
Direct Payments	120	56	143	92	212
Manufacturing	8,334	8,972	9,999	10,613	10,338
Mineral Production	1,022	1,002	1,126	967	893
Electric Power Sales	1,026	1,073	1,111	1,130	1,179
Export Sales	249	257	289	321	363
Housing Starts (no. of units)	1,963	2,318	2,612	2,895	3,133
Retail Trade	7,432	7,920	8,589	8,772	9,023
FOREIGN EXPORTS					
Total Exports	5,456	6,220	7,314	8,067	7,946
U.S.	3,957	4,509	5,382	6,069	6,490
GROSS DOMESTIC PRODUCT					
Nominal	26,978	28,270	29,323	30,061	31,212
Real	25,535	26,073	27,119	28,008	28,616
BASE RATE WAGE SETTLEMENTS (%)					
Public	0.3	0.0	1.0	1.2	2.5
Private	0.9	1.9	1.8	1.6	3.1
Total	0.4	0.2	1.1	1.4	2.5
INVESTMENT					
Total	3,814	3,978	4,882	4,991	5,153
Private	2,697	2,939	3,858	3,961	4,034
Public	1,117	1,039	1,024	1,030	1,119
Non-residential	3,095	3,246	4,064	4,102	4,151
Housing	720	732	819	889	1,002
POPULATION					
July 1 (000's)	1,130	1,134	1,137	1,138	1,144
LABOUR MARKET					
Labour Force (000's)	559.0	558.9	562.0	566.8	574.8
Employment (000's)	519.0	518.6	525.6	535.7	542.7
Participation Rate (%)	66.8	66.5	66.6	67.0	67.5
Unemployment Rate (%)	7.2	7.2	6.5	5.5	5.6
CONSUMER PRICE INDEX					
(Index, 1992=100)	106.9	109.2	111.6	113.0	115.2
BANKRUPTCIES					
Business	210	293	292	266	216
Farm	10	24	19	27	29
Personal	2,496	2,747	2,770	2,422	2,466

Sources: Statistics Canada and the Manitoba Bureau of Statistics

1995	1996	1997	1998	1999
(Annual Percentage Change)				
2.5	11.6	8.9	-3.9	2.8
17.5	14.5	4.4	-4.7	-7.2
4.5	15.4	8.1	1.0	6.7
-61.7	-53.2	153.6	-35.3	129.6
10.5	7.6	11.5	6.1	-2.6
24.6	-2.0	12.4	-14.1	-7.7
2.3	4.5	3.6	1.6	4.4
-2.8	3.3	12.5	11.2	13.0
-38.6	18.1	12.7	10.8	8.2
5.9	6.6	8.4	2.1	2.9
21.2	14.0	17.6	10.3	-1.5
21.5	13.9	19.4	12.8	6.9
3.7	4.8	3.7	2.5	3.8
0.9	2.1	4.0	3.3	2.2
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
7.3	4.3	22.7	2.2	3.3
5.6	9.0	31.3	2.7	1.8
11.6	-7.0	-1.4	0.5	8.7
13.4	4.9	25.2	0.9	1.2
-12.9	1.7	11.9	8.6	12.7
0.5	0.4	0.2	0.1	0.5
0.3	0.0	0.6	0.9	1.4
1.9	-0.1	1.3	1.9	1.3
-	-	-	-	-
-	-	-	-	-
2.7	2.2	2.2	1.3	2.0
-6.7	39.5	-0.3	-8.9	-18.8
42.9	140.0	-20.8	42.1	7.4
10.8	10.1	0.8	-12.6	1.8

SECTORS

Farm Cash Receipts
Crops
Livestock
Direct Payments
Manufacturing
Mineral Production
Electric Power Sales
Export Sales
Housing Starts (no. of units)
Retail Trade

FOREIGN EXPORTS

Total Exports
U.S.

GROSS DOMESTIC PRODUCT

Nominal
Real

BASE RATE WAGE SETTLEMENTS (%)

Public
Private
Total

INVESTMENT

Total
Private
Public
Non-residential
Housing

POPULATION

July 1 (000's)

LABOUR MARKET

Labour Force (000's)
Employment (000's)
Participation Rate (%)
Unemployment Rate (%)

CONSUMER PRICE INDEX

(Index, 1992=100)

BANKRUPTCIES

Business
Farm
Personal





Budget Paper B

**FINANCIAL REVIEW
AND STATISTICS**

FINANCIAL REVIEW AND STATISTICS

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■ Introduction

The 2000 Manitoba Budget is designed to be responsive to the needs of Manitobans, while providing responsible management of the Province's finances.

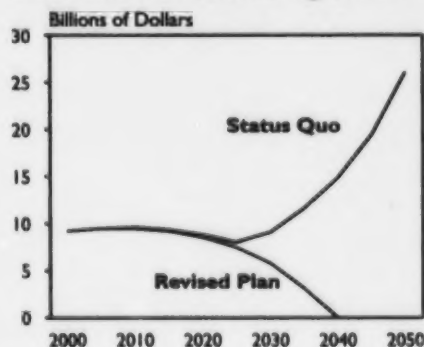
The Budget is balanced. Furthermore, the draw on the Fiscal Stabilization Fund will be halved. This Budget provides the first long-term plan to pay down both Manitoba's general purpose debt and the unfunded pension liability with respect to provincial employees and teachers.

The Government of Manitoba is committed to a course that will provide Manitobans with quality public services in an efficient manner. Sustainability, transparency and accountability are important in keeping us on this course. The financial statements have been restructured to provide greater transparency, as recommended by the Provincial Auditor.

This Budget:

- invests in priority programs such as health and education, and does not depend on transfers from the Fiscal Stabilization Fund;
- provides significant and responsible property tax and income tax relief; and
- makes substantial progress toward putting Provincial finances on a sustainable footing through a long-term debt and pension liability reduction plan. Under the revised plan, all general purpose debt will be repaid and all pension obligations will be honoured by 2040. This is a significant improvement over the status quo.

Projected General Purpose Debt and Pension Obligations



This Budget provides the balanced approach that protects the programs we value, while building our communities and our economy.

Comparative Statement of Budgetary Revenue, Expenditure, Transfers and Balance

1999/2000

	1999/2000 3Q-Forecast	1999/2000 Budget	Increase/(Decrease) From Budget to 3Q-Forecast	
	(Millions of Dollars)	(Millions of Dollars)	(Millions of Dollars)	%
Revenue				
Own-Source	4,251	4,174	77	1.8
Federal Transfers	2,082	1,723	359 ¹	20.8
Total Revenue	6,333	5,897	436	7.4
Expenditure				
Program				
Base	5,739	5,505	234	4.3
Extraordinary	219	0	219	N.A.
Total	5,958	5,505	453	8.2
Debt Servicing	480	481	(1)	(0.2)
Total Expenditure	6,438	5,986	452	7.6
Net Revenue/(Expenditure)	(105)	(89)	(16)	(18.0)
Interfund Transfers				
Debt Repayment	(75)	(75)	0	0.0
Fiscal Stabilization Fund	185	185	0	0.0
Balance Under Balanced Budget Legislation	5	21	(16)	(76.2)

Note 1: Federal transfer revenue is \$359 million over the 1999/2000 Budget estimate. This total is comprised of:

Equalization Adjustments	\$296 million
Other Transfers	63 million
Total	\$359 million

■ 1999/2000 Results

1999/2000 fiscal results depart substantially from the amounts in the 1999 Budget. Third Quarter projections of both revenue and expenditure are much higher than budgeted. Year-end accounts have not been finalized, but are expected to be close to the Third Quarter Report figures.

Revenue

Own-source revenue exceeded estimates, providing an additional \$77 million in taxes and other collections. Transfer revenue received from the federal government, including positive prior years adjustments, exceeded Budget by \$359 million. Other transfer revenue above Budget included those for emergency expenditures for agriculture and flood relief.

Expenditure

Total expenditure exceeded the budgeted amounts by \$452 million, a significant portion of which is attributable to health. Over half of this expenditure, \$234 million, pertains to base expenditure. Another \$219 million pertains to extraordinary expenditures related to agriculture disaster assistance and provisions for losses, as recommended by Deloitte and Touche in their independent review of the Province's finances.

Net Revenue/(Expenditure)

The 1999 Budget yielded a net expenditure, before debt repayment and transfers from the Fiscal Stabilization Fund, of \$89 million. The large variances in revenue and expenditure noted above are almost offsetting, but leave a net expenditure of \$105 million.

Balance Under Balanced Budget Legislation

Under balanced budget legislation, \$75 million was required to be transferred to the Debt Retirement Fund. The 1999 Budget covered both the budgeted net expenditure and the transfer to the Debt Retirement Fund through a draw on the Fiscal Stabilization Fund of \$185 million. The entire budgeted draw of \$185 million is anticipated to be required to achieve a positive \$5 million balance as calculated under the legislation.

Comparative Statement of Budgetary Revenue, Expenditure, Transfers and Balance

2000/01 and 1999/2000

	2000/01 Budget	1999/2000 3Q-Forecast	Increase/(Decrease) From 1999/2000 3Q-Forecast	
	(Millions of Dollars)		(Millions of Dollars)	%
Revenue				
Own-Source	4,487	4,251	236	5.6
Federal Transfers	1,927	2,082	(155)	(7.4)
Total Revenue	<u>6,414</u>	<u>6,333</u>	<u>81</u>	<u>1.3</u>
Expenditure				
Program				
Base	5,924	5,739	185	3.2
Extraordinary	0	219	(219)	N.A.
Total	<u>5,924</u>	<u>5,958</u>	<u>(34)</u>	<u>(0.6)</u>
Debt Servicing	474	480	(6)	(1.3)
Total Expenditure	<u>6,398</u>	<u>6,438</u>	<u>(40)</u>	<u>(0.6)</u>
Net Revenue/(Expenditure)	<u>16</u>	<u>(105)</u>	<u>121</u>	<u>115.2</u>
Interfund Transfers				
Debt/Pension Repayment	(96) ¹	(75)	(21)	(28.0)
Fiscal Stabilization Fund	90	185	(95)	(51.4)
Balance Under Balanced Budget Legislation	<u>10</u>	<u>5</u>	<u>5</u>	<u>100.0</u>

Note 1: Commencing in 2000/01, \$21 million from the debt repayment allocation is applied to start funding pension obligations incurred under the Civil Service Superannuation Fund and the Teachers Retirement Allowances Fund. This amount is sufficient to match the current service contributions for new employees (\$4 million) and apply \$17 million against the unfunded pension liability.

■ 2000/01 Budget

Revenue

Own-source revenue is budgeted to be \$236 million higher than forecast for 1999/2000. This growth is led by increases in Individual Income Tax, up \$75 million after tax relief; Mining Tax, up \$58 million; Retail Sales Tax, up \$41 million; and Corporation Income Tax, up \$29 million.

Revenue from federal transfers is down by \$155 million. A major factor is the reduction in federal supplements to the Canada Health and Social Transfer (CHST). The 1999 federal Budget provided \$131 million, while the 2000 federal Budget provided only \$92 million in supplemental revenue for social programs. Another factor in this decline is the prior years adjustments, which boosted revenue in 1999/2000.

Expenditure

The 2000 Budget provides for an increase in program expenditure of \$185 million, or 3.2%, excluding extraordinary expenditure from the 1999/2000 forecast. The largest increases are for the priority areas of health, education, family services and justice.

Net Revenue/(Expenditure)

This Budget provides for net revenue of \$16 million. This is a significant improvement from the net expenditure of \$105 million forecast for 1999/2000.

Balance Under Balanced Budget Legislation

There will be a transfer of \$96 million for debt repayment. Of this amount, \$21 million will be allocated to funding pension obligations incurred under the Civil Service Superannuation Plan and the Teachers Retirement Allowances Fund. There will be a draw of \$90 million from the Fiscal Stabilization Fund, down from \$185 million last year. The planned draw will be used for debt retirement. The Balance Under Balanced Budget Legislation will be a positive \$10 million.

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■ The Medium-Term Fiscal Framework

Over the medium term, total revenue is projected to increase at an average annual rate of about 3.0%, a rate that reflects the Government's announced tax relief, and is consistent with overall growth in the economy as forecast by the Conference Board of Canada. According to the February 2000 Conference Board forecast, Manitoba's nominal Gross Domestic Product is expected to grow at an average annual rate of about 4.0% over the next three years. Real Gross Domestic Product growth, meanwhile, is expected to average about 2.3% over this period. Federal transfer payments provide 30% of budgeted revenue in 2000/01. The Medium-Term Fiscal Framework assumes moderate growth in transfers. Such additional amounts could be received through a combination of increased Equalization, CHST restoration and/or other transfers.

Program expenditure is targeted to increase at an average annual rate of 2.8% after 2000/01 – a rate that provides for maintenance of key public services and modest improvements in areas of greatest priority.

Public debt costs are projected to continue at their present level of \$475 million over the medium term.

Reducing the Provincial debt is an important aspect of putting Provincial finances on a more sustainable footing. In line with the requirements of our Province's balanced budget legislation, \$96 million per year will be set aside for debt retirement and used for debt and pension liabilities retirement.

Medium-Term Fiscal Framework

	1999/2000 ¹	2000/01	2001/02	2002/03	2003/04
	(Millions of Dollars)				
Revenue	<u>6,333</u>	<u>6,414</u>	<u>6,565</u>	<u>6,781</u>	<u>7,013</u>
Expenditure					
Program Expenditure	<u>5,958</u>	<u>5,924</u>	<u>6,044</u>	<u>6,215</u>	<u>6,437</u>
Public Debt Costs	<u>400</u>	<u>474</u>	<u>475</u>	<u>475</u>	<u>475</u>
Total	<u>6,438</u>	<u>6,398</u>	<u>6,519</u>	<u>6,690</u>	<u>6,912</u>
Net Revenue/(Expenditure)	<u>(105)</u>	<u>16</u>	<u>46</u>	<u>91</u>	<u>101</u>
Interfund Transfers					
Debt/Pension Repayment	<u>(75)</u>	<u>(96)</u>	<u>(96)</u>	<u>(96)</u>	<u>(96)</u>
Fiscal Stabilization Fund	<u>185</u>	<u>90</u>	<u>60</u>	<u>15</u>	<u>5</u>
Balance Under Balanced Budget Legislation	5	10	10	10	10

Note 1: 3Q Forecast

The Medium-Term Fiscal Framework reflects current forecasts and assumptions. Should future circumstances depart from these, budget decisions will reflect these changes.

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Net Revenue/(Expenditure)	(105)	16	46	91	101
Interfund Transfers					
Debt/Pension Repayment	(75)	(96)	(96)	(96)	(96)
Fiscal Stabilization Fund	185	90	60	15	5
Balance Under Balanced Budget Legislation	5	10	10	10	10

Note 1: 3Q Forecast

The Medium-Term Fiscal Framework reflects current forecasts and assumptions. Should future circumstances depart from these, budget decisions will reflect these changes.

■ Pension Liabilities and Debt Repayment

Since 1961, the Manitoba Government has not funded its obligations to pension plans for provincial civil servants and teachers. While the annual employee contributions by each of these groups are deposited to their respective pension plans, the employer has not matched these contributions. Instead, the Province funds 50% of retiree benefits as they are paid.

Employee pension plans for civil servants and teachers are defined benefit plans. Employees are guaranteed a formula-driven benefit based on service and salary. Every year an employee works, he or she earns a benefit to be paid in the future. This creates a liability for the employer related to service already provided but tied to future salary levels. With no funding to create an offsetting income-generating asset, this liability grows over time.

Since 1988, accounting standards require that governments record their pension liability. In 1990, the Provincial Auditor began to qualify his opinion on the Public Accounts. The Manitoba Government has never complied with this requirement in its Operating Fund.

In 1996, the Government passed legislation requiring that an annual budgetary provision be made for the repayment of its general purpose debt. While the legislation contemplated that general purpose debt would be repaid by the year 2028, it ignored the Government's pension liability, which stood at \$2.8 billion at March 31, 2000. By the year 2028, the actuaries project this liability for pensions, if left unattended, will grow to \$8.4 billion. This amount is greater than the general purpose debt the previous government set out to retire in 1996.

This Budget introduces a comprehensive approach to address both debt and pension obligations in an orderly manner. In the 2000/01 fiscal year, the Government will:

- continue to pay its annual retiree pension obligations;
- continue to make provision for debt repayment. For the year 2000/01, this amounts to \$96 million, in accordance with the debt repayment legislation. \$75 million will be targeted for general purpose debt repayment and the remaining \$21 million to address pension obligations; and
- match the current pension contributions for all civil servants and teachers hired on or after April 1, 2000.

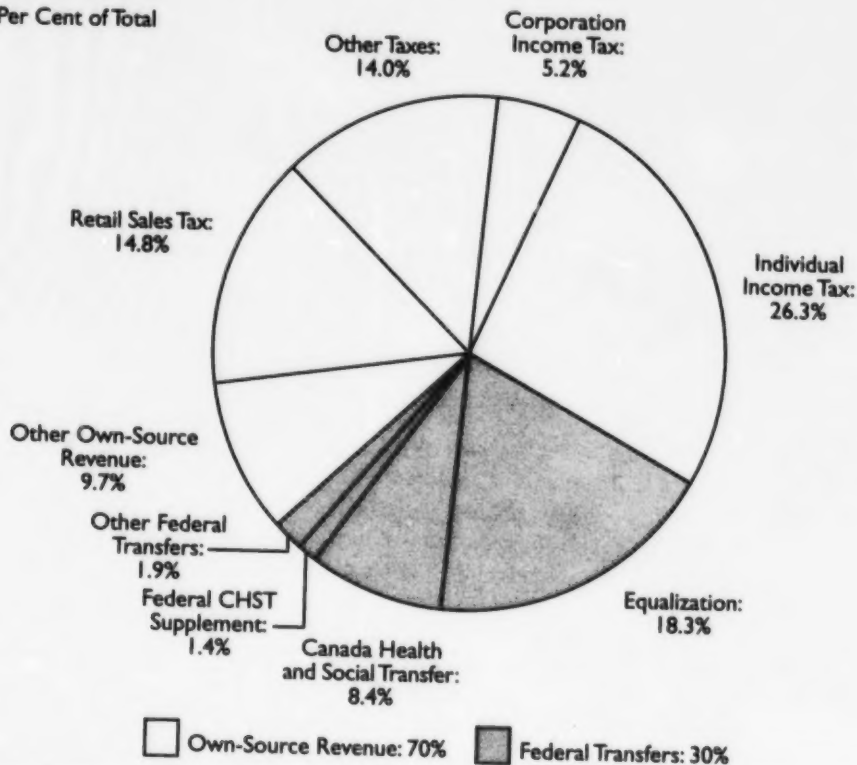
In years where the general purpose debt repayments and matching the current contributions of new employees is less than the total debt repayment funding mandated by the legislation, the difference will be contributed to the pension plans as special payments to begin to retire past pension liabilities. In 2000/01, this will result in a special payment of some \$17 million toward the pension liability.

Based on current actuarial projections, it is expected that the pension liability will be fully recorded and funded by 2034/35, and the general purpose debt will be repaid by 2039/40.

Provincial Revenue, 2000/01

Major Sources

Per Cent of Total



Revenue by Source

2000/01 and 1999/2000

	2000/01 Budget	1999/2000 3Q-Forecast	Change, 2000/01 from 1999/2000 Forecast	
	(Millions of Dollars)		(Millions of Dollars)	(%)
Own-Source Revenue	4,487	4,251	236	5.6
Government of Canada	1,927	2,082	(155)	(7.4)
Total Revenue	6,414	6,333	81	1.3

Note: As a result of a change in presentation, transfers from the Fiscal Stabilization Fund have not been included as revenue.

Revenue Estimates

(Thousands of Dollars)

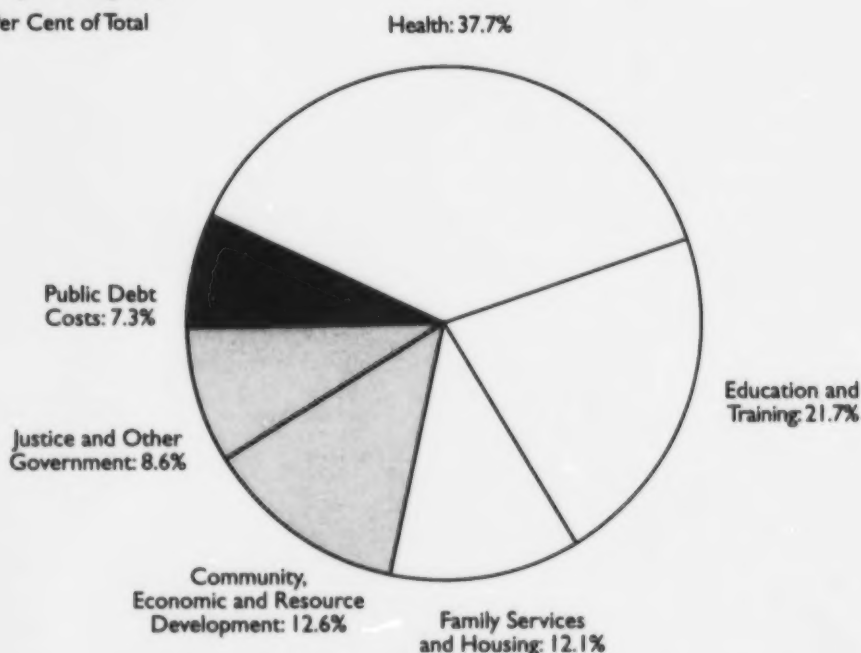
	2000/01 Estimate	1999/2000 3Q-Forecast	1999/2000 Budget Adjusted	Per Cent Change 2000/01 from 1999/2000 Forecast
■ Own-Source Revenue				
Income Taxes				
• Individual Income Tax	1,685,800.0	1,610,800.0	1,646,300.0	
• Corporation Income Tax	333,000.0	303,600.0	205,000.0	
Subtotal	2,018,800.0	1,914,400.0	1,851,300.0	5.5
Taxes, Levies and Collections				
• Land Transfer Tax	12,000.0	11,662.0	12,000.0	
• Corporation Capital Tax	140,000.0	135,000.0	126,000.0	
• Gasoline Tax	157,000.0	155,000.0	157,000.0	
• Insurance Corporations Tax	40,640.0	38,700.0	38,700.0	
• Levy for Health and Education	228,000.0	222,000.0	230,000.0	
• Mining Tax	68,000.0	10,000.0	3,200.0	
• Motive Fuel Tax	67,000.0	66,700.0	66,700.0	
• Oil and Natural Gas Tax	3,569.9	3,051.0	2,952.2	
• Retail Sales Tax	950,700.0	909,900.0	909,900.0	
• Revenue Act, 1964, Part I	56,300.0	56,000.0	55,000.0	
• Tobacco Tax	124,500.0	112,000.0	113,000.0	
• Environmental Protection Tax	3,000.0	3,000.0	3,000.0	
• Other Taxes	112.0	111.0	112.0	
Subtotal	1,850,821.9	1,723,124.0	1,717,564.2	7.4
Fees and Other Revenue				
• Fines and Costs; and Other Legal	20,860.2	17,864.0	17,241.9	
• Minerals and Petroleum	5,810.8	5,627.0	5,323.4	
• Automobile and Motor Carrier Licences and Fees	56,500.0	56,000.0	53,587.8	
• Drivers' Licences	13,365.8	12,316.0	12,315.8	
• Water Power Rentals	46,500.0	47,537.0	50,000.0	
• Parks; Forestry; Fisheries; and Other Conservation	28,274.3	27,855.0	25,527.8	
• All Other Manitoba Collections	54,204.6	57,992.0	62,400.5	
Subtotal	225,515.7	225,191.0	226,397.2	0.1
Crown Corporations / Entities				
• Manitoba Lotteries Corporation	220,000.0	225,000.0	219,000.0	
• Liquor Control Commission	159,000.0	155,000.0	152,000.0	
• Other	13,125.0	8,140.0	8,140.0	
Subtotal	392,125.0	388,140.0	379,140.0	1.0
Total Own-Source Revenue	4,487,262.6	4,250,855.0	4,174,401.4	5.6
■ Federal Transfers				
• Equalization	1,171,100.0	1,266,600.0	970,000.0	
• Canada Health and Social Transfer	539,900.0	512,200.0	499,200.0	
• Federal CHST Supplement	92,200.0	130,595.0	131,000.0	
• Other Transfers	123,840.8	173,124.0	122,859.5	
Total Federal Transfers	1,927,040.8	2,082,519.0	1,723,059.5	(7.4)
Total Budgetary Revenue	6,414,303.4	6,333,374.0	5,897,460.9	1.3

Note: As a result of a change in presentation, transfers from the Fiscal Stabilization Fund have not been included as revenue.

Provincial Operating Expenditure, 2000/01

Major Categories

Per Cent of Total



Program Expenditure Estimates

2000/01 and 1999/2000

	2000/01 Budget	1999/2000 3Q-Forecast ¹	Change, 2000/01 from 1999/2000 Forecast	
	(Millions of Dollars)		(Millions of Dollars)	(%)
Health	2,435	2,300	135	5.9
Education and Training	1,403	1,322	81	6.1 ²
Family Services and Housing	780	748	32	4.3
Other Departments	1,366	1,613	(247)	(15.3)
Expenditure Estimates	5,984	5,983	1	0.0

Note 1: The 1999/2000 information has been adjusted to be consistent with the 2000/01 Estimates structure.
The 1999/2000 forecast is based on the Third Quarter Financial Report.

Note 2: The increase in Education and Training expenditure is 4.5% if the Property Tax Credit is not included.

Operating Expenditure Estimates

(Thousands of Dollars)

	2000/01 Estimate	1999/2000 3Q-Forecast ¹	1999/2000 Budget	Per Cent Change 2000/01 from 1999/2000 Forecast
■ Health	2,435,546.7	2,300,393.1	2,118,818.5	5.9
■ Education and Training	1,402,861.4	1,321,744.0	1,304,016.6	6.1 ²
■ Family Services and Housing	780,441.6	747,722.4	742,773.7	4.3
■ Community, Economic and Resource Development				
• Aboriginal and Northern Affairs	23,216.2	19,454.8	19,453.2	
• Agriculture and Food	114,083.2	206,534.4	113,872.9	
• Conservation	152,017.2	149,863.2	171,671.7	
• Highways and Government Services	297,620.6	293,881.0	291,791.3	
• Industry, Trade and Mines	40,059.3	58,619.0	44,188.8	
• Intergovernmental Affairs	139,089.6	134,425.4	130,750.1	
• Enabling Appropriations	24,332.6	2,846.8	18,730.8	
• Capital Initiatives	0.0	55,000.0	55,000.0	
• Other Appropriations	20,775.0	142,272.0	28,275.0	
Total Community, Economic and Resource Development	811,193.7	1,062,896.6	873,733.8	(23.7)
■ Justice and Other Government				
• Legislative Assembly	21,583.3	29,707.4	26,251.3	
• Executive Council	3,513.4	3,460.0	3,460.0	
• Civil Service Commission	2,955.4	2,946.1	2,893.1	
• Community Support Programs	6,296.2	6,318.0	6,317.6	
• Consumer and Corporate Affairs	9,426.4	9,332.0	9,328.9	
• Culture, Heritage and Tourism	58,791.4	59,807.6	59,718.4	
• Employee Pensions and Other Costs	53,859.1	50,754.0	50,753.9	
• Finance	102,916.5	102,719.8	95,909.5	
• Healthy Child Initiative	12,865.9	10,501.5	10,701.3	
• Justice	220,512.0	209,330.2	205,088.9	
• Labour	23,138.2	21,834.9	21,960.3	
• Sport	10,391.9	10,547.0	10,556.8	
• Status of Women	1,137.2	1,118.0	1,202.3	
• Enabling Appropriations	26,500.0	32,149.4	21,500.0	
Total Justice and Other Government	553,886.9	550,525.9	525,642.3	0.6
■ Total Program Expenditure	5,983,930.3	5,983,282.0	5,564,984.9	0.0
■ Public Debt Costs	474,475.0	480,000.0	480,800.0	(1.2)
■ Total Expenditure Estimates	6,458,405.3	6,463,282.0	6,045,784.9	(0.1)
■ Less: Year-End Lapse	(60,000.0)	(25,000.0)	(60,000.0)	
■ Total Budgetary Expenditure	6,398,405.3	6,438,282.0	5,985,784.9	(0.6)

Note 1: The 1999/2000 information has been adjusted to be consistent with the 2000/01 Estimates structure.

The 1999/2000 forecast is based on the Third Quarter Financial Report.

Extraordinary expenditures of \$219 million have been included in the appropriate department estimates.

Note 2: The increase in Education and Training expenditure is 4.5% if the Property Tax Credit is not included.

■ Capital Investment

Part B Capital Investment is required for the annual purchase or acquisition of tangible capital assets which meet the established guidelines for amortization (see Appendix B of the 2000/01 Estimates of Expenditure). Tangible capital assets are those with a useful life extending beyond one year which are acquired, constructed or developed and held for use, not resale. Tangible capital assets whose acquisition value is less than established capitalization thresholds are recorded as operating expenditure in the year of acquisition.

Any Part B Capital Investment authority that is not used at year-end, lapses, similar to unused Part A Operating Expenditure authority.

The following table outlines the Part B Capital Investment authority requirements for 2000/01.

Capital Investment, 2000/01

(Thousands of Dollars)

Better Systems - Information Technology Initiatives	17,000
Government Services Capital Projects	12,600
Better Methods Initiative	8,000
Highways Equipment and Other Capital	6,122
Health Information Technology Initiatives	4,000
Desktop Management Initiative	3,000
Air Services Capital	1,936
Other Equipment and Buildings	1,342
	<u>54,000</u>

■ Capital Grants, Infrastructure and Capital Investment

Total spending for capital purposes is comprised of spending on capital grants and infrastructure from Part A of the Estimates of Expenditure and Capital Investment spending from Part B of the Estimates of Expenditure.

Total spending for capital purposes is outlined in the following chart.

Capital Grants, Infrastructure and Capital Investment, 2000/01

(Thousands of Dollars)

Capital Grants (Part A)	202,585
Infrastructure (Part A)	134,737
Capital Investment (Part B)	<u>54,000</u>
	<u>391,322</u>

■ Loan Act Requirements

The following table reflects expenditure authority to be included in *The Loan Act, 2000*. Effective for the 2000/01 fiscal year, financing for health capital projects will be brought into the Provincial borrowing program and be included in *The Loan Act*.

Incremental Capital Authority Requirements for Non-Budgetary Programs, 2000/01

(Thousands of Dollars)

The Loan Act, 2000

Health Capital Program	480,000*
The Manitoba Agricultural Credit Corporation	169,500
The Manitoba Hydro-Electric Board	133,500
Manitoba Industrial Opportunities Program	16,500
Communities Economic Development Fund	10,800
The Manitoba Water Services Board	7,400
Special Operating Agencies Financing Authority	
Fleet Vehicles Agency	6,300
Manitoba Housing and Renewal Corporation	5,000
Economic Development Initiatives	5,000
The Manitoba Film and Sound Recording Development Corporation	1,000
	<u>835,000</u>

* Authority to refinance existing debt

Non-Budgetary Capital Program, 2000/01

(Thousands of Dollars)

The Manitoba Hydro-Electric Board	372,726
The Manitoba Agricultural Credit Corporation	140,300
The Manitoba Water Services Board	27,714
Manitoba Industrial Opportunities Program	25,924
Communities Economic Development Fund	10,900
Special Operating Agencies Financing Authority	
Fleet Vehicles Agency	8,800
Manitoba Housing and Renewal Corporation	5,400
Miscellaneous Corporations, Agencies and Other Programs	23,512
	<u>615,276</u>

■ Borrowing Requirements

Manitoba's borrowing requirements for both general and self-sustaining purposes, including the guaranteed debt of Crown corporations, will total \$2.4 billion in 2000/01. A total of \$2.1 billion is required for the refunding of general purpose and self-sustaining debt. The remainder is required for capital investments and self-sustaining programs, including Manitoba Hydro. Incremental capital authority requirements totaling \$0.8 billion are provided by *The Loan Act, 2000*. The debt guarantee fee has been adjusted to 0.7% for Manitoba Hydro to more accurately reflect the value of Provincial borrowing on its behalf.

Borrowing Requirements

(Thousands of Dollars)

	Estimated Unfunded as at March 31,2000	Refunding 2000/01	New Cash Requirements 2000/01	Estimated Repayments of Loans & Advances 2000/01	Borrowing Requirements 2000/01
General Government					
Program Debt	—	911,471	—	—	911,471
Capital Investments	—	—	23,820	—	23,820
Self-Sustaining					
Programs Debt	—	202,500	—	—	202,500
Manitoba Hydro	(40,000)	664,828	133,500	—	758,328
Manitoba Hospital Facilities	48,000	361,012	—	—	409,012
Manitoba Agricultural Credit Corporation	—	—	106,100	52,000	54,100
Business Support Programs	—	—	28,049	8,400	19,649
Manitoba Water Services Board	—	—	14,431	—	14,431
Communities Economic Development Fund	—	—	9,500	—	9,500
Miscellaneous	—	—	16,884	16,884	—
	<u>8,000</u>	<u>2,139,811</u>	<u>332,284</u>	<u>77,284</u>	<u>2,402,811</u>

Statement of Valuation and Purpose of Direct and Guaranteed Debt Outstanding

(Thousands of Dollars) Unaudited

As at March 31, 2000 (with comparative figures for March 31, 1999)

Canadian Dollar Equivalent at Date of Issue March 31/00	Canadian Dollar Equivalent at Date of Issue March 31/99	Increase (Decrease) March 31/00 over March 31/99		Canadian Dollar Valuation (Note 1) March 31/00	Canadian Dollar Valuation (Note 1) March 31/99	Increase (Decrease) March 31/00 over March 31/99
			Direct Debt Payable in:			
11,158,247	10,202,979	955,268	Canadian Dollars	11,130,447	10,175,179	955,268
2,739,675	1,991,737	747,938	Issues Swapped to Canadian Dollars	2,837,913	2,045,427	792,486
4,153,883	4,311,071	(157,188)	U.S. Dollars	5,087,250	5,517,267	(430,017)
510,273	740,294	(230,021)	Issues Swapped to U.S. Dollars	574,016	880,384	(306,368)
18,562,078	17,246,081	1,315,997	Total Direct Debt	19,629,626	18,618,257	1,011,369
			Guaranteed Debt Payable in:			
420,354	479,633	(59,279)	Canadian Dollars	420,354	479,632	(59,278)
0	296,709	(296,709)	U.S. Dollars	0	296,709	(296,709)
420,354	776,342	(355,988)	Total Guaranteed Debt	420,354	776,341	(355,987)
18,982,432	18,022,423	960,009	Total Direct and Guaranteed Debt (Note 2)	20,049,980	19,394,598	655,382
6,591,551	5,766,744	824,807	Less: Sinking Fund Investments	6,591,551	5,766,744	824,807
0	230,071	(230,071)	Less: Debt Retirement Fund	0	230,071	(230,071)
12,390,881	12,025,608	365,273	Net Direct and Guaranteed Debt (Note 3)	13,458,429	13,397,783	60,646

Note 1: The Canadian Dollar Valuation is calculated using the foreign currency exchange rates in effect at March 31, 2000 and March 31, 1999 adjusted for any foreign currency contracts entered into for settlement after these dates.

Note 2: Direct and Guaranteed Debt are payable in Canadian and U.S. dollars. As at March 31, 2000, total Gross Debt was payable 72% in Canadian dollars and 28% in U.S. dollars. Of this total, General Purpose Debt and Other Debt was payable 85% in Canadian dollars (78% at March 31, 1999) and 15% in U.S. dollars (22% at March 31, 1999) while Manitoba Hydro was payable 47% in Canadian dollars (43% at March 31, 1999) and 53% in U.S. dollars (57% at March 31, 1999).

Note 3: The above debt was issued for the following purposes:

	March 31, 2000		March 31, 1999	
	(\$ Thousands)	(\$ Per Capita)	(\$ Thousands)	(\$ Per Capita)
General Government Programs	6,464,584	5,653	6,632,000	5,828
The Manitoba Hydro-Electric Board	5,798,107	5,070	5,676,452	4,988
Other	950,838	832	947,531	833
Capital Investments	244,900	214	141,800	125
	13,458,429	11,769	13,397,783	11,774

Direct and Guaranteed Debt

Net Maturities to March 31, 2031

	Canadian Valuation Payable in		Net Maturities
	Canadian Dollars	U.S. Dollars	
	(Millions of Dollars)		
2000/01	1,270	509	1,779
2001/02	450	872	1,322
2002/03	1,100	790	1,890
2003/04	460	815	1,275
2004/05	904	70	974
2005/06	108	—	108
2006/07	578	—	578
2008-12	2,853	727	3,580
2013-17	537	—	537
2018-22	310	655	965
2023-31	—	—	—
Treasury Bills and Manitoba Hydro Promissory Notes	450	—	450
Total	9,020	4,438	13,458

The above table is based on foreign exchange rates in existence on March 31, 2000.

■ Fiscal Stabilization Fund

In 2000/01, \$90 million will be drawn from the Fiscal Stabilization Fund, less than half the amount drawn last year. All of this year's draw will be directed to debt repayment.

Statement of Revenue, Expenditure and Balance

Projection as at March 31, 2001 and March 31, 2000

	2000/01	1999/2000 3Q-Forecast
	(Millions of Dollars)	
Fund Balance, beginning of year	258.4	427.3
Revenue		
Balance Under Balanced Budget Legislation	10.0	4.8
Interest Earnings	5.5	11.0
	15.5	15.8
Expenditure		
Transfer to Operating Fund	90.0	184.7
Fund Balance, end of year	183.9	258.4

As shown in the table below, of the \$800 million deposited to the FSF, \$648 million consisted of:

- the initial \$200 million deposit which converted a \$58 million surplus to a \$142 million deficit;
- \$303 million of proceeds from the sale of Crown organizations; and
- \$145 million from a special lotteries transfer.

Two-thirds of the net draws from the Fiscal Stabilization Fund occurred in the last three years alone.

Fiscal Stabilization Fund Transactions Summary

	1988/89 to 1999/2000
	(Millions of Dollars)
Deposits	
1988/89 – \$58 million surplus turned to \$142 million deficit.....	200
Manitoba Data Services sale (1990/91).....	18
Repap share redemption (1995/96).....	20
Special Lotteries Transfer (1995/96).....	145
Manitoba Telephone System sale (1996/97).....	265
Interest from Consolidated Fund.....	152
Total Deposits	800
Net Draws	
1989/90 to 1996/97.....	183
1997/98.....	24
1998/99.....	155
1999/2000 (forecast).....	180
Total Net Draws	542
Balance in Fund.....	258

Manitoba Financial Statistics, Ten-Year Summary

	2000/01 Budget	1999/2000 3Q-Forecast	1998/99 Actual	1997/98 Actual	1996/97 Actual
(Millions of Dollars)					
FINANCIAL STATEMENTS¹					
Revenue					
Own-Source Revenue	4,487	4,251	4,323	3,858	4,047 ²
Federal Transfers	1,927	2,082	1,559	1,884	1,716
Total	6,414	6,333	5,882	5,742	5,763
Expenditure					
Program Expenditure	5,924	5,958	5,372	5,171	4,869
Public Debt Costs	474	480	515	520	539
Total	6,398	6,438	5,887	5,691	5,408
Net Revenue/(Expenditure)	16	(105)	(5)	51	355
Debt/Pension Repayment	(96)	(75)	(150)	(75)	0
Transfers from/(to) Fiscal Stabilization Fund	90	185	186	100	(264)
Balance Under Balanced Budget Legislation	10	5	31	76	91
Net Direct and Guaranteed Debt					
General Purpose	6,347	6,464	6,632	6,773	6,808
Hydro	5,874	5,798	5,677	5,569	4,893
Other	1,025	951	947	976	1,212
Health Facilities	409	0	0	0	0
Capital Investments	269	245	142	0	0
Total	13,924	13,458	13,398	13,318	12,913
Other Obligations					
Health Debt	218	503	450	461	438
Pension Liability	2,907	2,776	2,624	2,572	2,182
Total	3,125	3,279	3,074	3,033	2,620
Total Obligations	17,049	16,737	16,472	16,351	15,533
Fiscal Stabilization Fund					
End of Year Balance	184	258	427	565	578
Memorandum Items					
Population (000's)	1,150	1,144	1,138	1,137	1,134
GDP at Market Prices	32,675	31,212	30,061	29,323	28,270

Note 1: Refer to Public Accounts of Manitoba for applicable statements on accounting policies.

Note 2: Includes net gain of \$264.6 million from divestiture of Manitoba Telephone System.

1995/96 Actual	1994/95 Actual	1993/94 Actual	1992/93 Actual	1991/92 Actual
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(Millions of Dollars)

3,789	3,310	3,247	2,882	3,146
1,873	1,895	1,629	1,816	1,821
5,662	5,205	4,876	4,698	4,967

4,913	4,804	4,752	4,905	4,779
592	597	585	559	492
5,505	5,401	5,337	5,464	5,271

157 ^a	(196)	(461)	(766)	(304)
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0	0	0	0	0
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0	0	30	200	(30)
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157 ^a	(196)	(431)	(566)	(334)
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6,814	7,364	6,834	6,180	5,295
5,090	5,022	5,426	4,679	4,979
1,770	1,945	1,876	1,852	1,549
0	0	0	0	0
0	0	0	0	0
13,674	14,331	14,136	12,711	11,823

604	617	607	611	528
2,039	1,924	1,863	1,624	1,495
2,643	2,541	2,470	2,235	2,023

16,317	16,872	16,606	14,946	13,846
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210	31	29	56	315
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1,130	1,124	1,118	1,113	1,110
26,978	26,007	24,685	24,222	24,015

FINANCIAL STATEMENTS¹**Revenue**

Own-Source Revenue

Federal Transfers

Total

Expenditure

Program Expenditure

Public Debt Costs

Total

Net Revenue/(Expenditure)**Debt/Pension Repayment****Transfers from/(to) Fiscal
Stabilization Fund****Balance Under Balanced
Budget Legislation****Net Direct and
Guaranteed Debt**

General Purpose

Hydro

Other

Health Facilities

Capital Investments

Total

Other Obligations

Health Debt

Pension Liability

Total

Total Obligations**Fiscal Stabilization Fund
End of Year Balance****Memorandum Items**

Population (000's)

GDP at Market Prices

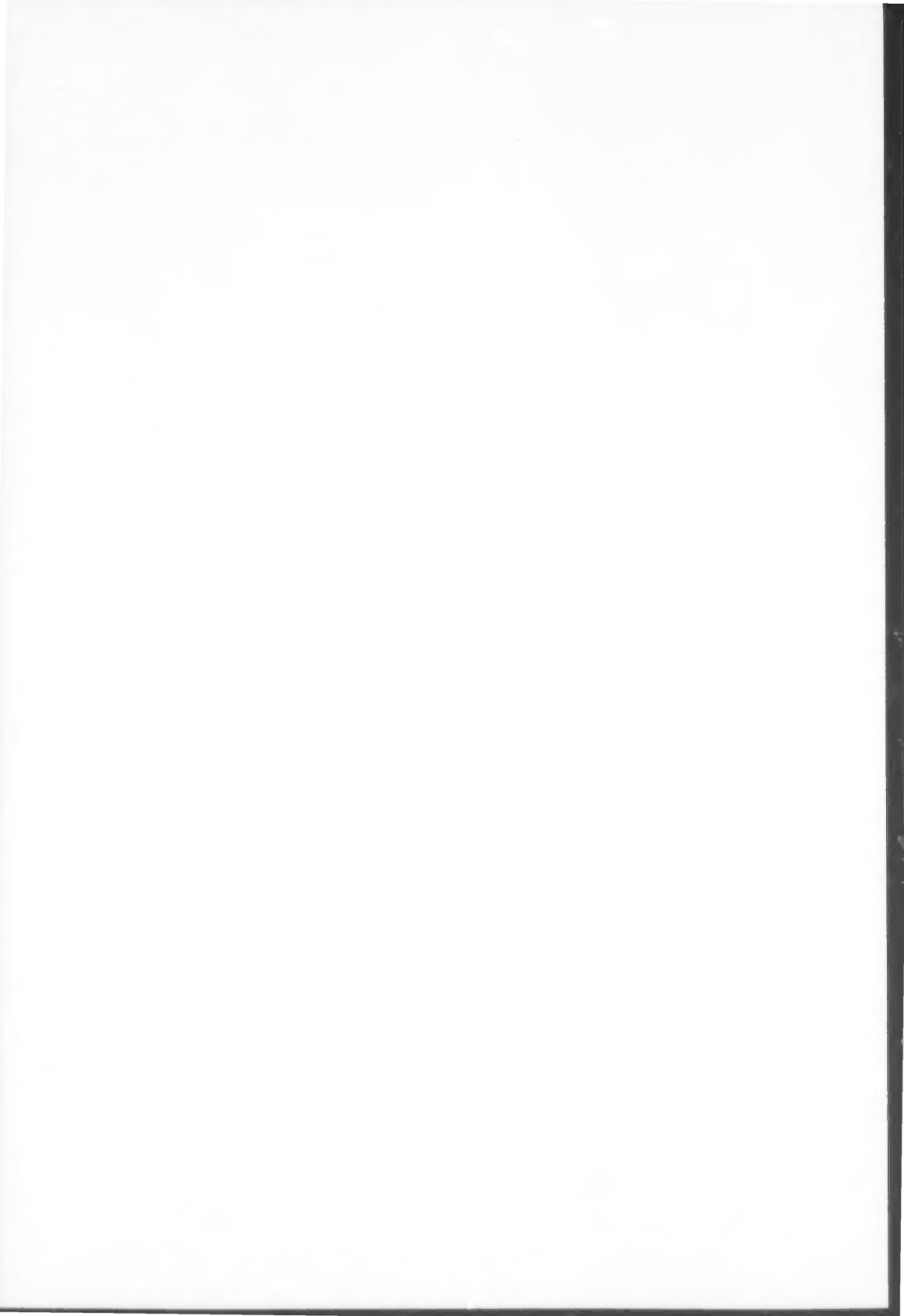
Note 3: Includes \$145 million Special Lotteries Transfer.

Manitoba Financial Statistics, Ten-Year Summary

	2000/01 Budget	1999/2000 3Q-Forecast	1998/99 Actual	1997/98 Actual	1996/97 Actual
Annual Change			(Per Cent Change)		
Own-Source Revenue	5.6	(1.7)	12.1	(4.7)	6.8
Federal Transfers	(7.4)	33.5	(17.3)	9.8	(8.4)
Total Revenue	1.3	7.7	2.5	(0.4)	1.8
Program Expenditure	(0.6)	10.9	3.9	6.2	(0.9)
Public Debt Costs	(1.2)	(6.8)	(1.0)	(3.6)	(9.0)
Total Expenditure	(0.6)	9.4	3.4	5.2	(1.8)
Balance Under Balanced Budget Legislation	100.0	(83.9)	(59.2)	(16.5)	(42.0)
Net General Purpose Debt	(1.8)	(2.5)	(2.1)	(0.5)	(0.1)
Total Net Debt	3.5	0.5	0.6	3.1	(5.6)
Per Cent of GDP			(Per Cent)		
Own-Source Revenue	13.7	13.6	14.4	13.2	14.3
Total Revenue	19.6	20.3	19.6	19.6	20.4
Program Expenditure	18.1	19.1	17.9	17.6	17.2
Public Debt Costs	1.5	1.5	1.7	1.8	1.9
Total Expenditure	19.6	20.6	19.6	19.4	19.1
Balance Under Balanced Budget Legislation	0.0	0.0	0.1	0.3	0.3
Net General Purpose Debt	19.4	20.7	22.1	23.1	24.1
Per Cent of Revenue					
Own-Source Revenue	70.0	67.1	73.5	67.2	70.2
Federal Transfers	30.0	32.9	26.5	32.8	29.8
Public Debt Costs	7.4	7.6	8.8	9.1	9.4
Net General Purpose Debt	99.0	102.1	112.7	118.0	118.1
Per Cent of Expenditure					
Program Expenditure	92.6	92.5	91.3	90.9	90.0
Public Debt Costs	7.4	7.5	8.7	9.1	10.0
Balance Under Balanced Budget Legislation	0.2	0.1	0.5	1.3	1.7
Dollars Per Capita			(Dollars)		
Total Expenditure	5,564	5,630	5,173	5,007	4,768
Public Debt Costs	413	420	452	457	475
Balance Under Balanced Budget Legislation	9	4	27	67	80
Net General Purpose Debt	5,519	5,653	5,828	5,959	6,002

Source: Manitoba Department of Finance

1995/96 Actual	1994/95 Actual	1993/94 Actual	1992/93 Actual	1991/92 Actual	
(Per Cent Change)					Annual Change
14.5	1.9	12.7	(8.4)	5.5	Own-Source Revenue
(1.2)	16.4	(10.3)	(0.3)	7.4	Federal Transfers
8.8	6.8	3.8	(5.4)	6.2	Total Revenue
2.3	1.1	(3.1)	2.6	5.4	Program Expenditure
(0.8)	2.1	4.6	13.7	(1.8)	Public Debt Costs
1.9	1.2	(2.3)	3.7	4.7	Total Expenditure
(180.1)	(54.5)	(23.9)	69.3	14.6	Balance Under Balanced
(7.5)	7.8	10.6	16.7	0.9	Budget Legislation
(4.6)	1.4	11.2	7.5	5.9	Net General Purpose Debt
					Total Net Debt
(Per Cent)					Per Cent of GDP
14.1	12.7	13.2	11.9	13.1	Own-Source Revenue
21.0	20.0	19.8	19.4	20.7	Total Revenue
18.2	18.5	19.3	20.3	19.9	Program Expenditure
2.2	2.3	2.4	2.3	2.1	Public Debt Costs
20.4	20.8	21.6	22.6	21.9	Total Expenditure
0.6	(0.8)	(1.7)	(2.3)	(1.4)	Balance Under Balanced
25.3	28.3	27.7	25.5	22.0	Budget Legislation
					Net General Purpose Debt
					Per Cent of Revenue
66.9	63.6	66.6	61.4	63.4	Own-Source Revenue
33.1	36.4	33.4	38.7	36.7	Federal Transfers
10.5	11.5	12.0	11.9	9.9	Public Debt Costs
120.3	141.5	140.2	131.5	106.6	Net General Purpose Debt
					Per Cent of Expenditure
89.2	89.0	89.0	89.8	90.7	Program Expenditure
10.8	11.1	11.0	10.2	9.3	Public Debt Costs
2.9	(3.6)	(8.1)	(10.4)	(6.3)	Balance Under Balanced
					Budget Legislation
(Dollars)					Dollars Per Capita
4,873	4,806	4,771	4,909	4,750	Total Expenditure
524	531	523	502	443	Public Debt Costs
139	(174)	(385)	(508)	(301)	Balance Under Balanced
6,031	6,552	6,111	5,552	4,772	Budget Legislation
					Net General Purpose Debt





Budget Paper C

**TAXATION
ADJUSTMENTS**

TAXATION ADJUSTMENTS

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Summary of 2000 Tax Measures

	2000/01	Full Year
	(Millions of Dollars)	
New Measures		
Personal Income Tax	(17.0)	(102.0)
Reduction due to federal changes	(9.0)	(9.9)
Property Tax Credit increase	(26.0)	(26.0)
Ongoing Measures Supported in this Budget		
Personal Income Tax rate reduction	(40.5)	(40.5)
Small business rate reduction	(7.5)	(18.0)
Total Decrease	<u>(100.0)</u>	<u>(196.4)</u>
Health Measure		
Tobacco Tax rate increase	12.5	15.0
Net Increase / (Decrease)	<u>(87.5)</u>	<u>(181.4)</u>

■ Personal Income Tax

(2000/01 revenue impact: -\$17.0 million)

Under new federal-provincial arrangements, provinces have more latitude in the design of their income tax systems. It is now possible for Manitoba to replace its old three-tax system – a basic Income Tax, a Net Income Tax and a Net Income Surtax – with a single set of brackets and rates based directly on taxable income.

This new approach is less complex and more transparent for taxpayers, who will continue to file a single income tax return for both their federal and provincial taxes.

The new approach has been partially implemented for the 2000 tax year. The full system will be in place for 2001 with the following key features.

- There will be three brackets. There will be no Net Income Tax and no surtaxes.

Tax on taxable income up to \$30,544	10.9%
Tax on taxable income between \$30,544 and \$61,089	16.2%
Tax on taxable income over \$61,089	17.5%

In 2002, the rate in the second bracket will fall to 15.6%, and the threshold between the second and third brackets will rise to \$65,000.

- A number of non-refundable tax credits are subtracted from the basic tax. Manitoba will continue to use the same tax credit items as the federal government, but their value will be significantly enhanced. Each of the “amounts” used to calculate the credits will rise, and the credit rate will rise from 8% to 10.9%. These two changes combined will result in credits that are 39% higher in 2001 than in 2000.

Non-refundable tax credits	2000	2001	Change
Basic personal tax credit	\$578	\$802	39%
Spouse or equivalent-to-spouse tax credit	491	681	39%
Age tax credit	282	392	39%
Disability tax credit	343	476	39%
Caregiver tax credit	191	265	39%
Infirm dependents tax credit	191	265	39%

The credits that depend on amounts actually paid – such as those for Canada Pension Plan contributions, Employment Insurance premiums, medical expenses and education costs – will all be credited at the new rate of 10.9%, effectively raising the tax credit value of each dollar claimed by 36%.

- A new Family Tax Reduction will replace the existing tax reduction. With an income offset of 1% – instead of 2% in the old system – benefits will be available both to low-income families and to many more middle-income families. As well, the amounts for each child will rise from \$250 to \$300, delivering extra tax relief to families with children. *Continued on page 4*

Income Tax Savings For Typical Taxpayers

SINGLE PERSON

Income	Manitoba Tax Savings from 1999			3-Year Total	2002 Savings over 1999
	In 2000	In 2001	In 2002		
	(Dollars)				(Percentage)
10,000	26	71	87	185	49.0
20,000	68	144	163	375	11.9
40,000	133	211	293	637	7.3
60,000	211	305	507	1,023	6.9
75,000	276	404	687	1,367	6.8
100,000	385	545	828	1,758	5.7

SENIOR COUPLE

Income	Manitoba Tax Savings from 1999			3-Year Total	2002 Savings over 1999
	In 2000	In 2001	In 2002		
	(Dollars)				(Percentage)
30,000	86	206	248	540	65.0
40,000	142	234	310	686	15.8
50,000	185	235	371	790	9.6
60,000	196	287	464	947	8.1
75,000	260	480	745	1,484	8.6
100,000	401	493	801	1,695	6.1

FAMILY OF FOUR

Income	Manitoba Tax Savings from 1999			3-Year Total	2002 Savings over 1999
	In 2000	In 2001	In 2002		
	(Dollars)				(Percentage)
25,000	76	313	346	735	58.6
40,000	153	421	515	1,089	17.8
60,000	231	715	929	1,875	14.0
75,000	296	764	1,059	2,119	11.2
100,000	405	655	950	2,010	6.8

Increased Property Tax Credits are not included in the above examples.

In these tables, it is assumed that single and married taxpayers have earned income and pay Canada Pension Plan and Employment Insurance premiums. The family of four includes one earner, has a dependent spouse and two dependent children. The senior couple each receive Old Age Security Pension, and the principal taxpayer receives private pension and interest income, and claims the other senior as a dependent. Totals may not add due to rounding.

The amount for persons with a disability, or for those supporting such a person, will also rise to \$300. The basic amount, the amount for a spouse or equivalent-to-spouse and the age amount will all be \$225.

- The tax credit for charitable donations will rise by 28% or more (depending on the size of the donation).
- Some 15,000 lower-income Manitobans will cease to pay any income tax.

On a tax year basis, these changes will save Manitoba taxpayers \$68 million in 2001 and a further \$34 million in 2002 for an annual total of \$102 million.

On a fiscal year basis, these changes will reduce revenue for 2000/01 by \$17 million. In combination with the impact of changes announced in the 2000 federal Budget, Manitoba Personal Income Tax will decrease by \$26.0 million for 2000/01. For 2001/02, the combined impact of the Manitoba and federal tax changes will decrease Manitoba Personal Income Tax by \$82.7 million.

Further information on Personal Income Tax reform and relief may be found below starting on page 6.

■ **Property Tax Credit**

(2000/01 revenue impact: -\$26.0 million)

Starting with the 2000 tax year, the minimum Property Tax Credit is raised by \$75 from \$250 to \$325. The maximum Property Tax Credit is raised by \$75 from \$525 to \$600, and from \$625 to \$700 for seniors.

The Property Tax Credit provides assistance based on property taxes and income. For tenants, 20% of rental payments is used as a proxy for property taxes paid. The Credit is equal to the lesser of:

- (a) property taxes above \$250, or
- (b) \$600 (\$700 for seniors) less 1% of family net income.

The minimum Property Tax Credit is \$325.

Most homeowners receive their minimum entitlement of \$325 as a deduction on their municipal property tax statement, shown as the Resident Homeowner Tax Assistance. All tenants, and homeowners who qualify for more than the minimum amount, claim the Property Tax Credit on the Manitoba Income Tax return.

■ Tobacco Taxes

(2000/01 revenue impact: +\$12.5 million)

The Tobacco Tax rate will be increased effective midnight May 10, 2000. The tax rate on cigarettes will increase from 8.0¢ to 8.6¢ per cigarette; on fine-cut tobacco, from 5.3¢ per gram to 7.3¢ per gram; on raw leaf tobacco, from 4.0¢ per gram to 6.0¢ per gram.

The full-year revenue associated with this measure is \$15.0 million.

■ Technical Amendments

Amendments to various taxation statutes will be made as part of *The Statute Law Amendment (Taxation) Act, 2000*. These amendments will:

- provide for consistent interest and penalty application under all statutes to improve fairness and clarity;
- harmonize Retail Sales Tax provisions pertaining to telecommunications services, to be consistent with other jurisdictions and to avoid double taxation;
- clarify Retail Sales Tax provisions pertaining to repair parts for exempt farm machinery and implements;
- enhance collection capability for Retail Sales Tax arrears;
- clarify the Corporation Capital Tax provisions respecting corporations that cease to have a permanent establishment in Manitoba during a fiscal year; and
- establish provisions under the fuel and tobacco statutes to support enforcement activities.

■ Further Information

Inquiries regarding personal income taxes and property tax credits should be directed to:

Manitoba Tax Assistance Office
309 – 401 York Avenue
Winnipeg MB R3C 0P8

Telephone: (204) 943-3401 in Winnipeg
Toll-free: 1-800-782-0771
E-mail: TAO@fedprov.gov.mb.ca

Inquiries regarding tobacco, retail sales, corporation capital and fuel taxes should be directed to:

Taxation Division
Department of Finance
415 – 401 York Avenue
Winnipeg MB R3C 0P8

Telephone: (204) 945-5603 in Winnipeg
(204) 726-6153 in Brandon
Toll free: 1-800-782-0318 (Winnipeg)
1-800-275-9290 (Western Region)
Facsimile: (204) 945-0896
E-mail: MBTax@fin.gov.mb.ca

PERSONAL INCOME TAX REFORM AND RELIEF IN DETAIL

■ Background

In every province but Québec, the Canada Customs and Revenue Agency administers provincial personal income taxes. This means that individual Canadians have to deal with only one tax collection agency and file one tax form. This is more convenient for taxpayers and reduces the overall cost of the tax system.

Until recently, provinces had to express their income tax as a share of basic federal tax. This limited the flexibility of provinces to tailor their tax systems to their own needs. For example, provinces could not determine the number and size of their own tax brackets, or offer additional non-refundable tax credits. To get around this restriction, provinces added features to their tax systems that achieved their objectives in other, generally more complex ways. In Manitoba's case, these included a flat 2% tax on net income and a 2% surtax on net income over \$30,000.

In December 1997, federal and provincial Finance Ministers agreed to a new arrangement under which provinces would be able to calculate their taxes as a percentage of taxable income – just as federal tax is calculated. The benefits of the current system – single administration and common rules – will be retained, but provinces will now have flexibility to set their own rates and brackets. Manitoba's new system will be less complex and more transparent.

■ Features of the New System

As announced in February, Manitoba is making a two-year transition to the new system. For 2000, provincial income tax will be calculated directly on taxable income, but the Net Income Tax and Surtax are being retained. The new system will be fully implemented in the 2001 tax year with the following features.

Brackets and Rates

There will be three tax brackets. The threshold between the first and second brackets will rise from \$29,590 to \$30,544 in 2001. The threshold between the second and third brackets will rise from \$59,180 to \$61,089 in 2001, and to \$65,000 in 2002. This two-step increase will allow Manitobans to earn \$5,820 more than in 2000 before they reach the top tax bracket.

The rates of tax on taxable income in 2001 will be 10.9%, 16.2% and 17.5%¹. There will no longer be a Net Income Tax or Surtax. These changes simplify the tax calculation, and make our tax structure more transparent.

In 2002, the middle rate will fall from 16.2% to 15.6%, providing further relief to middle-income Manitobans.

Note 1: The comparable rates in 2000 are 8%, 12.22% and 13.63% plus the 2% Net Income Tax and the 2% Surtax where applicable.

These new rates eliminate the use of the Net Income Tax and the Surtax and, combined with more generous non-refundable tax credits and the new Family Tax Reduction, deliver lower taxes to Manitobans.

Non-refundable Tax Credits

A large portion of the tax relief is delivered through a significant enhancement of the non-refundable tax credits. Manitoba is boosting the value of those credits in two ways: (1) the "amounts" are increasing, and (2) the credit rate is rising from 8% to 10.9%. For example, in 2000, the basic personal amount is \$7,231. This is multiplied by the credit rate of 8.0% to arrive at a tax credit of \$578, which is subtracted from tax owing. In 2001, the basic personal amount rises to \$7,361 and the credit rate rises to 10.9%, for a tax credit of \$802 – an increase of 39%. Similarly, there will be a 39% increase in each of the spousal credit, the equivalent-to-spouse credit, the age credit for seniors, the caregiver credit and the disability credit. For the non-refundable credits that are based on amounts actually paid – the credits for Canada Pension Plan and Employment Insurance premiums, for education costs, and for medical expenses – the value of the credit for each dollar claimed will rise by 36%.

Family Tax Reduction

A new Family Tax Reduction will replace the existing tax reduction. With an income offset of 1% – instead of 2% in the old system – benefits will be available both to low-income families and to many more middle-income families.

In addition, the basic Child Tax Reduction will rise from \$250 to \$300 per child.

The amount that can be claimed by Manitobans with disabilities, or by those supporting them, will also rise to \$300.

The basic amount, the amount for a spouse or equivalent-to-spouse and the age amount will all be \$225.

Manitoba Tax Credits

Manitoba will continue to offer the following tax credits: Property Tax Credit, Cost-of-Living Tax Credit, Learning Tax Credit, Political Contribution Tax Credit, Labour-Sponsored Funds Tax Credit and Equity Tax Credit.

■ Impacts of the Changes

Tax relief in excess of inflation

In 2001, the value of Manitoba's non-refundable tax credits will rise by 39% – effectively offsetting many years of inflation. The threshold between the second and third tax brackets will also rise by substantially more than the inflation rate in 2002. The tax credit amounts and bracket thresholds will be reviewed annually.

Lower taxes for all income groups

The tax changes benefit people in every income group. The following table summarizes the distribution of the tax relief by income group. The largest share of the benefit flows to middle-income individuals and families. Lower-income families already pay among the lowest taxes in the country (or receive among the most generous tax credits) while Manitoba's top marginal tax rate is third-lowest in Canada.

Income	Current Share of Tax Paid	Share of Tax Relief
Under \$30,000	14%	26%
Between \$30,000 and \$75,000	55%	52%
Over \$75,000	31%	21%

More people will pay no tax

Some 15,000 lower-income Manitobans will cease to pay any income tax.

Lower taxes for families with children

The Child Tax Reduction is rising from \$250 per child to \$300, while the income offset is falling from 2% of net income to 1%. The following examples illustrate how the changes leave more money in the hands of families with children.

	2000	2001	Change
One earner family, \$40,000, 2 children			
Tax reduction base amount	\$ 430	\$ 225	
Spousal amount	370	225	
Child amount (twice)	500	600	
Subtotal	1,300	1,050	
Subtract 2% (2000) or 1% (2001) of net income	-800	-400	
Tax Reduction	500	650	30%
Two earner family, \$36,000 and \$24,000, 2 children, tax reduction claimed by parent with higher income			
Tax reduction base amount	\$ 430	\$ 225	
Child amount (twice)	500	600	
Subtotal	930	825	
Subtract 2% (2000) or 1% (2001) of net income	-720	-360	
Tax Reduction	210	465	121%

The lower offset rate makes the tax reduction available to more middle-income families. For a taxpayer claiming the base amount and the amount for two children in the old system, the tax reduction disappeared when income reached \$46,500. In the new system, this benefit will not disappear until income reaches \$82,500.

Lower taxes for Manitobans with special needs

The new tax system provides extra tax relief for persons with special needs, such as single parents, caregivers and persons with disabilities. Taxpayers like these are eligible for special non-refundable tax credits in addition to the basic personal credit, and Manitoba is boosting the value of these credits by 39%.

The medical expenses credit will also be more valuable due to the increase in the credit rate from 8% to 10.9%. However, the value of this credit depends on both the actual expenses and on income.

The following table shows how these credits are increasing in value. (For the medical expenses credit, it is assumed that eligible expenses are \$5,000 and that the claimant is eligible for the maximum credit.)

Selected Non-refundable Tax Credits	2000	2001	Change
Basic personal credit (for every taxpayer)	\$578	\$802	39%
Equivalent-to-spouse credit ¹ (maximum)	491	681	39%
Infirm dependents credit	191	265	39%
Caregiver credit	191	265	39%
Disability credit	343	476	39%
Medical expenses credit (assume \$5,000)	269	363	35%

¹ The equivalent-to-spouse credit may be claimed by a single, divorced, separated or widowed person who supports a child, a parent, a grandparent or an infirm relative. The maximum can be claimed when the dependent has no net income.

The new Family Tax Reduction also contains an important improvement for persons with disabilities. The reduction amount is being raised from \$270 to \$300 for a taxpayer or dependent with a disability, and the reduction amount for an infirm dependent over 18 is increased from \$250 to \$300. As well, the income offset is being cut from 2% of net income to 1%. This means that the value of this reduction will be higher, and the income up to which a person with a disability can claim a tax reduction will rise from \$35,000 to \$52,500.

	2000	2001	Change
Self-supporting person with a disability, \$25,000			
Base amount	\$430	\$225	
Disability amount	270	300	
Subtotal	700	525	
Subtract 2% (2000) or 1% (2001) of net income	-500	-250	
Tax Reduction	200	275	37%

	2000	2001	Change
Two earner family, \$36,000 and \$24,000, 2 children, 1 with a disability, (tax reduction claimed by parent with higher income)			
Base amount	\$ 430	\$ 225	
Child amount (twice)	500	600	
Disability amount	270	300	
Subtotal	1,200	1,125	
Subtract 2% (2000) or 1% (2001) of net income	-720	-360	
Tax Reduction	480	765	59%

Note that these tax reductions are in addition to the higher non-refundable tax credit amounts described earlier.

Lower taxes for seniors

There are four principal changes affecting seniors. First, seniors benefit from the 39% increase in the basic personal tax credit to \$802. Second, the non-refundable age tax credit (for taxpayers 65 and over) rises by 39% from \$282 to \$392. (Seniors with net income no greater than \$26,757 can claim the full credit in 2001. Some of the credit can be claimed on a reducing scale up to an income of about \$50,000.) Third, the tax credit for pension income rises by 37.5% (the maximum credit will rise from \$80 to \$109). Fourth, the age amount for seniors in the Family Tax Reduction is reduced from \$270 to \$225, but the income offset is cut in half from 2% of net income to 1%. This means that the income up to which a single senior can claim a tax reduction will rise from \$35,000 to \$45,000. In addition, many seniors will benefit from the enhanced credits for disability and medical expenses. Families who care for seniors may benefit from the enhanced credit for caregivers.

The following examples illustrate the combined effect of the changes to the non-refundable tax credits and the Family Tax Reduction.

	2000	2001	Change
Single senior, \$20,000 from private pension and OASP			
Non-refundable Tax Credits			
Basic credit	\$ 578	\$ 802	
Age credit	282	392	
Pension credit	80	109	
Tax Credits	940	1,303	
Tax Reduction			
Base amount	\$ 430	\$ 225	
Seniors' amount	270	225	
Subtotal	700	450	
Subtract 2% (2000) or 1% (2001) of net income	-400	-200	
Tax Reduction	300	250	
Combined Tax Credits and Tax Reduction	1,240	1,553	25%

More support for charitable donations

The non-refundable tax credit for charitable donations under \$200 will rise from 8% to 10.9%, while the credit for donations over \$200 will rise from 13.63% to 17.5%. For a person making a \$1,000 charitable donation, the Manitoba tax credit rises from \$125 in 2000 to \$162 in 2001 – an increase of almost 30%.

Donations	2000	2001	Increase
\$ 200	\$ 16	\$ 22	38%
500	57	74	30%
1,000	125	162	30%
2,000	261	337	29%

■ Technical Issues

With the introduction of the new tax system, several technical adjustments will be required to parallel features of the national system.

Under the *Income Tax Act*, Canadian source dividends are grossed-up to a pre-tax level, and a dividend tax credit provided. Manitoba will provide a provincial equivalent to the federal credit, which for the year 2000 is equal to 47% of the federal credit, or 6.27% of the taxable dividend (90% of the provincial small business corporate tax rate in 2000). For 2001 and later years, the provincial dividend tax credit will be equal to the provincial small business corporate tax rate – 6% in 2001, and 5% beyond 2001.

Multi-jurisdictional taxpayers with income earned in Manitoba will be required to file a return and report all their income as if it were earned in the province. The notional tax liability then determined will be reduced (pro rata) to apply in proportion to total income that was earned in Manitoba.

Other technical issues, including Alternative Minimum Tax, the tax treatment of lump-sum pension adjustments, foreign overseas employment tax credits, treatment of trusts, rules in regard to income-splitting with minor children, and the ordering of non-refundable credits, will conform with the federal provisions.

Legislation implementing the new tax structure is in preparation and will be presented to the Legislative Assembly shortly.

How the Changes Affect Middle-Income Taxpayers with Children

One Earner Family, \$60,000 with 2 Children

1999 Old System	2000 Transition Year	2001 New System
Federal basic tax, 17% on 1st \$29,590, 26% on next \$29,590, 29% on balance	Tax, 8% on 1st \$29,590, 12.22% on next \$29,590, 13.63% on balance	Tax, 10.9% on 1st \$30,544, 16.2% on balance
12,962	6,095	8,101
Non-refundable tax credits: basic, spouse, CPP & EI, 17%	Non-refundable tax credits: basic, spouse, CPP & EI, 8%	Non-refundable tax credits: basic, spouse, CPP & EI, 10.9%
-2,498*	-1,251	-1,741
Basic Federal Tax	Net Income Tax, 2%	Tax Reduction,
10,464	1,200	\$225 basic, \$225 spouse, \$600 children
Basic Manitoba Tax, 48.5% of Basic Federal Tax	Surtax, 2% over \$30,000, minus surtax reductions	minus 1% of net income
5,075	450	-450
Net Income Tax, 2%	Tax Reduction, \$430 basic, \$370 spouse, \$500 children minus 2% of net income	
1,200	-100	
Surtax, 2% over \$30,000, minus surtax reductions		
450		
Tax Reduction, \$430-basic, \$370 spouse, \$500 children minus 2% of net income		
-100		
Manitoba Tax	Manitoba Tax	Manitoba Tax
6,625	6,394	5,910
	Change from previous year	Change from previous year
	-231	-484

* Until 1999, the federal non-refundable tax credits reduced Manitoba income tax by reducing basic federal tax, on which basic Manitoba tax was calculated. In this example, the effective value of the non-refundable credits with respect to Manitoba tax in 1999 is equal to the Manitoba tax rate times the federal credit, or 48.5% of \$2,498, which is \$1,212. It is this last amount that is comparable to the non-refundable tax credits of \$1,251 in 2000 and \$1,741 in 2001.

How the Changes Affect Seniors

Single Senior, \$20,000 from Private Pension, CPP and OASP

1999 Old System		2000 Transition Year		2001 New System	
Federal basic tax, 17% on 1st \$29,590	3,400	Tax, 8% on 1st \$29,590	1,600	Tax, 10.9% on 1st \$30,544	2,180
Non-refundable tax credits: basic, age and pension, 17%	-1,917*	Non-refundable tax credits: age and pension, 8%	-941	Non-refundable tax credits: basic, age and pension, 10.9%	-1,303
Basic Federal Tax	1,483	Net Income Tax, 2%	400	Tax Reduction, \$225 base, \$225 age minus 1% of net income	-250
Basic Manitoba Tax, 48.5% of Basic Federal Tax	719	Surtax, 2% over \$30,000, minus surtax reductions	0		
Net Income Tax, 2%	400	Tax Reduction, \$430 base, \$270 age minus 2% of net income	-300		
Surtax, 2% over \$30,000, minus surtax reductions	0				
Tax Reduction, \$430-base, \$270 age minus 2% of net income	-300				
Manitoba Tax	819	Manitoba Tax	759	Manitoba Tax	627
		Change from previous year	-60	Change from previous year	-132

* Until 1999, the federal non-refundable tax credits reduced Manitoba income tax by reducing basic federal tax, on which basic Manitoba tax was calculated. In this example, the effective value of the non-refundable credits with respect to Manitoba tax in 1999 is equal to the Manitoba tax rate times the federal credit, or 48.5% of \$1,917, which is \$930. It is this last amount that is comparable to the non-refundable tax credits of \$941 in 2000 and \$1,303 in 2001.

NON-REFUNDABLE TAX CREDITS

	Rate	Personal Amount	Spousal Amount	Age Amount	Disability Amount	Caregiver Amount	Infirm Dependents Amount
	%	\$	\$	\$	\$	\$	\$
2000	8.0	7,231	6,140	3,531	4,293	2,386	2,386
2001	10.9	7,361	6,251	3,595	4,370	2,429	2,429
2002	10.9	7,494	6,363	3,659	4,449	2,473	2,473

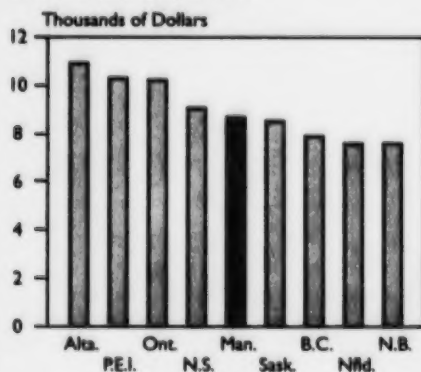
The value of each credit to an eligible taxpayer is the rate times the amount.

2000 Interprovincial Comparison of Personal Income Taxes

Budget Paper D, The Manitoba Advantage, includes a table showing taxes and other costs for typical families in each province. Another useful comparison of provincial tax systems is the income level at which provincial income tax becomes payable. The first three charts below show that Manitoba has the fourth or fifth best ranking among the provinces for a single person with no dependents, a one-income family of four and a single senior.

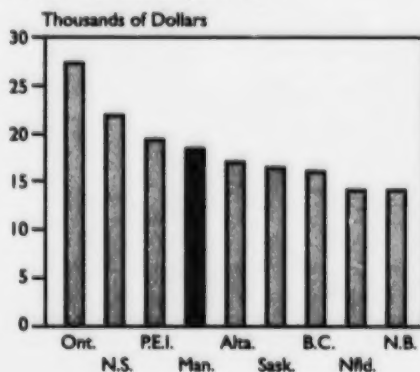
Another useful comparison is the top marginal tax rate, or the highest tax rate charged by each province. In 2000, Manitoba ranks third best.

Tax-Free Income – No Children, 2000



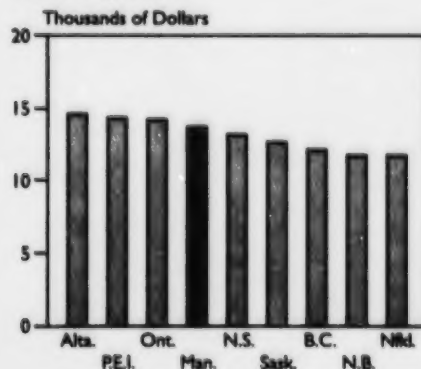
Source: Manitoba Finance

Tax-Free Income – Two Children, 2000



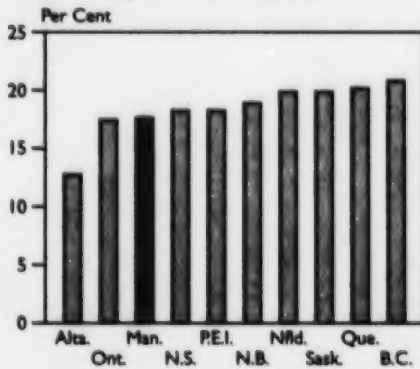
Source: Manitoba Finance

Tax-Free Income – Seniors, 2000



Source: Manitoba Finance

Top Marginal Tax Rate, 2000



Source: Manitoba Finance

2000 Interprovincial Comparison of Tax Rates

	B.C.	Alta.	Sask.	Man.	Ont.
Personal Income Tax					
Top Marginal Rate (%) ^(A)	20.81	13.26	19.90	17.63	17.42
Average Tax Rate (%) ^(B)	5.6	5.9	7.4	6.8	4.7
Health Care Premiums (\$) ^(C)	864	816	—	—	—
Corporation Income Tax ^(C)					
Small Rate	4.75	6.00	8.00	7.00	7.00
Large Rate	16.50	15.50	17.00	17.00	14.50
Capital Tax ^(D)	0.30	—	0.60	0.30	0.30
Banks	3.00	2.00	3.25	3.00	1.12
Employer Payroll Tax	—	—	—	2.15	1.95
Small Firms ^(E)	—	—	—	0.00	0.00
Sales Tax ^(F)	7.00	—	6.00	7.00	8.00
Diesel Fuel (\$/l) ^(G, H)	11.50	9.00	15.00	10.90	14.30
Gasoline (\$/l) ^(G, H)	11.00	9.00	15.00	11.50	14.70
Tobacco Tax (\$/cigarette) ^(I)	11.00	7.00	8.60	8.60	2.65

(A) Top marginal provincial rates on taxable income including surtaxes paid by taxpayers in the highest bracket.

(B) Provincial income tax as a share of income for a single earner family of four at \$40,000. Average tax rates are calculated as personal income taxes, including surtaxes and reductions, as a percentage of income. Average rates will vary with income and taxpayers' circumstances. It is no longer possible to compare provincial income taxes as a single percentage of federal tax.

(C) Some provinces apply special rates to certain types of business income.

(D) Man. imposes a 0.2% surtax on taxable paid-up capital in excess of \$10 million. Sask. applies a 3.6% surcharge on specified resource sales of large corporations. Banks and trust companies in B.C. with paid-up capital less than \$750 million pay at a rate of 1.0%.

(E) Firms with payroll of \$400,000 or less in Nfld., \$400,000 or less in Ont., \$1 million or less in Man., \$600,000 or less in Que. (new business only).

(F) Retail Sales Tax refers to general rate only. Que. and P.E.I. apply the sales tax on top of GST-inclusive prices.

(G) Petroleum taxes are for regular gasoline and highway diesel fuel. Gasoline and diesel fuel are subject to a transit levy of 4 cents per litre in Vancouver and 1.5 cents per litre in Victoria and Montréal.

(H) QST applies on top of these rates in Que., HST applies on top of these rates in N.B., N.S. and Nfld.

(I) Provinces, except B.C., Alta., and P.E.I., also apply sales taxes to tobacco products.

<u>Que.</u>	<u>N.B.</u>	<u>N.S.</u>	<u>P.E.I.</u>	<u>Nfld.</u>	
					Personal Income Tax
20.29	18.79	18.34	18.34	19.78	Top Marginal Rate (%) ^(A)
6.2	7.4	7.3	7.1	7.7	Average Tax Rate (%) ^(B)
-	-	-	-	-	Health Care Premiums (\$)
					Corporation Income Tax ^(C)
5.75	4.50	5.00	7.50	5.00	Small Rate
8.90	17.00	16.00	16.00	14.00	Large Rate
0.64	0.30	0.25	-	-	Capital Tax ^(D)
1.28	3.00	3.00	3.00	4.00	Banks
4.26	-	-	-	2.00	Employer Payroll Tax
3.23	-	-	-	0.00	Small Firms ^(E)
7.50	8.00	8.00	10.00	8.00	Sales Tax ^(F)
16.20	13.70	15.40	13.50	16.50	Diesel Fuel (\$/l) ^(G, H)
15.20	10.70	13.50	13.00	16.50	Gasoline (\$/l) ^(G, H)
4.30	4.15	4.83	6.63	11.00	Tobacco Tax (\$/cigarette) ^(I)





Budget Paper D

**THE MANITOBA
ADVANTAGE**

THE MANITOBA ADVANTAGE

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THE MANITOBA ADVANTAGE

Manitoba's capital city, Winnipeg, grew up around the junction of the Red and Assiniboine Rivers. For thousands of years before Winnipeg was established, Manitoba's Aboriginal people knew this site as a place to meet, a place for trade, and a place of abundant resources.

Today, this area is the location of the historic Forks heritage site. And Manitoba, whose history is rooted at the junction of the two rivers, is now an exciting and vibrant place – and an important part of the national and international economies.

Canada is ranked by the United Nations as one of the best countries in the world in which to live. Within Canada, Manitoba offers a standard of living second to none. The 1.1 million people who call Manitoba home enjoy first-rate quality of life, affordable housing and other living costs, and reliable and accessible public services.

For business, The Manitoba Advantage includes a well-educated and multilingual labour force, extremely competitive costs for many major business expenses – office space, industrial land, utilities, energy – and a competitive tax environment. Manitoba's overall competitiveness, in terms of taxes and other costs, is substantial.

Major companies continue to choose Manitoba as a place to invest and to grow. In recent years, companies like Boeing Canada, Great-West Life, Motor Coach Industries, Simplot, Maple Leaf Foods, Investors Group, Monsanto, Loewen Windows, Schneider Corporation and the Royal Bank have recognized the considerable advantages that Manitoba has to offer.

Annual Personal Costs and Taxes Family of Four Earning \$40,000*

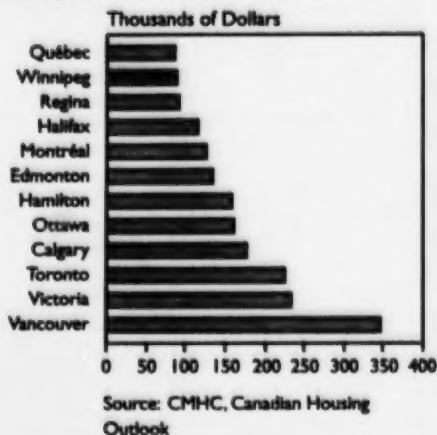


*Includes income, retail sales and gasoline taxes, health premiums, rent or mortgage costs, public transit costs or auto insurance, telephone service, electricity, heating and property taxes.

Taxes and other living costs, ranging from electricity to automobile insurance, tend to be lower in Manitoba. When the major taxes and other significant costs are added up for a typical family, Manitobans have the lowest taxes and living costs in the country.

(See Appendix 2)

Average Price of a Single-Detached House, 1999



Housing in Manitoba is very inexpensive, especially in comparison to Toronto and Vancouver.

- Manitoba has a large and highly diversified manufacturing sector. Firms in Manitoba produce a wide array of industrial and consumer goods, including furniture, apparel, chemicals and fertilizers, urban and intercity buses, and aerospace equipment. Many of the value-added inputs are procured locally, which further broadens the scope of manufacturing activity. The large manufacturing presence also promotes the development of a knowledgeable and highly skilled labour force within Manitoba.
- Manitoba's mid-continental location, as well as its situation at the northern end of the mid-west trade corridor, places the province in a strong position in terms of trade and transportation links. Winnipeg is served by three continental railways that operate intermodal terminals in Winnipeg. These facilities offer substantial flexibility and cost savings to business. Manitoba's central position in Canada also makes it an ideal centre for the trucking industry, and many of the leading interprovincial and transborder trucking firms are headquartered in Manitoba.
- Winnipeg International Airport is one of the few major North American airports which operate 24 hours a day. Generally favourable climate allows the Airport to be usable 99% of the time on an annual basis. Since it is closer to Tokyo than is Los Angeles, and about the same distance from Amsterdam as is Chicago, it can be faster and more cost-effective to fly goods from Asia and Europe to Winnipeg, and tranship by rail and truck to final markets throughout the Mid-west and beyond.

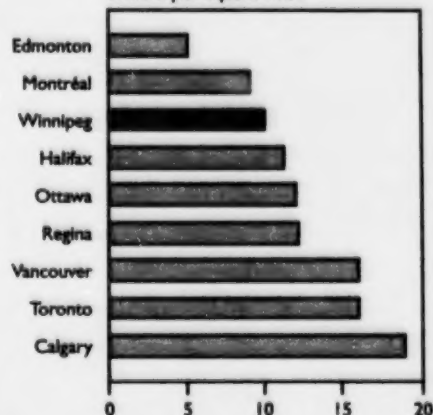
■ Churchill is not only a major tourist site, but also serves as Manitoba's Northern seaport. Already a long-established export route for agricultural and mineral commodities, it offers shippers major cost advantages, and has great potential as a trading port for markets in Northern and Eastern Europe, and Latin America. New investment planned for this year will enhance the port facility by allowing it to accommodate ships of up to 50,000 tonnes.

■ Manitoba's hydro-electric rates are among the lowest in the world. Manitoba Hydro, one of North America's major electricity companies, has generating capacity of over 5,100 megawatts. Virtually all of this energy is generated by clean, environmentally desirable hydraulic facilities. Manitoba Hydro has also identified several potential hydraulic power generating sites which could add a further 3,800 megawatts to its capacity at reasonable cost. This ensures that Manitobans will continue to have access to clean and affordable power both today and in the future.

■ One of the province's fastest growing industries is information and telecommunications. Manitoba's strategic advantages include a central time zone, low-cost office space, competitive telecommunication rates, and a ready supply of bilingual and multilingual workers. In addition, Manitoba has over 75,000 strand kilometres of fibre-optic cabling, with 100% digital switching technology. Manitoba was one of the first provinces to establish an Asynchronous Transfer Mode (ATM) fibre backbone network, delivering economical advanced services, such as multimedia applications, for most of Manitoba's communities.

Average Office Rental Rates, 1999

Dollars per Square Foot

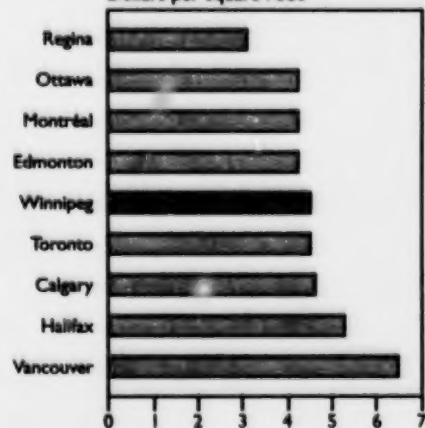


Source: Royal LePage

Manitoba offers low cost, excellent quality office space.

Industrial Rental Rates, 1999

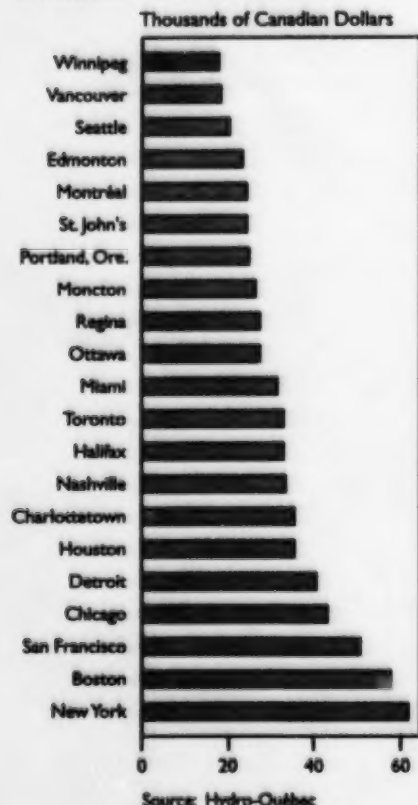
Dollars per Square Foot



Source: Royal LePage

Industrial buildings can also be rented at competitive rates.

**Monthly Industrial Electric Bills
Medium-sized Commercial/
Industrial Customer
400,000 Kilowatt Hours, 1999**



Manitoba electricity rates are among the lowest in North America, as the charts on this page and the facing page show. Indeed, they are among the lowest in the world.

■ Manitoba's support for important public services, such as health care and education, continues to grow. The 2000 Manitoba Budget strengthens Manitoba's health care system. There are also no premiums or personal charges for health services. Manitobans also enjoy quality public education, as well as affordable, high-quality post-secondary education opportunities in our universities and colleges. Manitoba's average tuition fees for arts and science last year were third-lowest among the ten provinces.

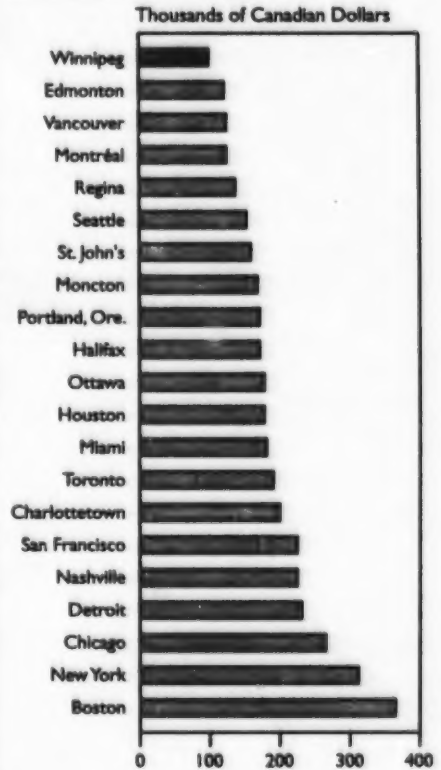
■ Manitoba has a long history of support for education and research – a tradition which continues into the new century. Manitoba's three public universities and its several colleges offer a variety of degree, certificate and diploma opportunities. Research and innovation are important parts of the provincial economy, and the province boasts a variety of major health and pharmaceutical research facilities including the National Centre for Agri-Food Research in Medicine, the National Research Council Institute for Biodiagnostics, St. Boniface General Hospital Research Centre, Canada's Centre for Disease Control Virology Lab, and the Manitoba Institute for Cell Biology. Manitoba is also home to many engineering and technology research facilities, including the Internet Innovation Centre, the Manitoba Industrial Technology Centre, Telecommunications Research Laboratories (TRLabs) and SMARTpark, the new multi-disciplinary research park currently being established at the University of Manitoba. The Manitoba Government actively supports research and innovation activities, and the development of research infrastructure, in the province.

■ Manitoba's population has created a rich and fascinating mosaic of cultural and artistic accomplishments. Folklorama, a celebration of the many cultures of Manitoba, was recognized as the Best Cultural Event in 1999 by the Canadian Event Industry, and attracts over 400,000 pavilion visits during its two-week run. Manitoba's other cultural festivals include: the Brandon Royal Winter Fair; Northern Manitoba's Trappers' Festival in The Pas; the Winnipeg Folk Festival, one of the largest in North America; the Festival du Voyageur, a celebration of Manitoba's French-Canadian heritage; Canada's National Ukrainian Festival in Dauphin; and numerous music and theatrical festivals.

■ Winnipeg has an active artistic and cultural scene, including the Winnipeg Art Gallery, the Manitoba Museum of Man and Nature, the Winnipeg Symphony Orchestra and the Manitoba Opera Company. The famous Royal Winnipeg Ballet performs around the world. The enthusiastic support of Manitobans for the arts is evident in Statistics Canada data, which show that Manitoba's performing arts companies enjoyed among the highest per capita revenue in Canada, including revenue from ticket sales, public grants and fund raising. Manitoba ranked highly in each of these categories. Overall, Manitobans have among the highest rates of volunteerism in Canada, reflecting our community spirit and tradition of caring.

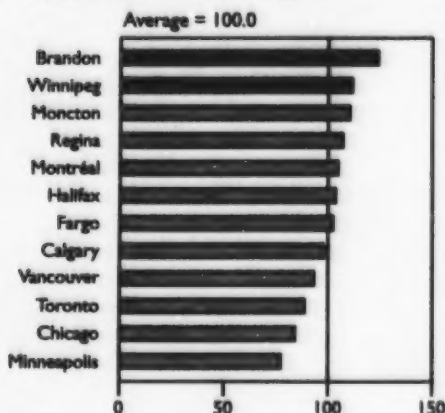
Monthly Industrial Electric Bills Large-sized Commercial/ Industrial Customer

3,060,000 Kilowatt Hours, 1999



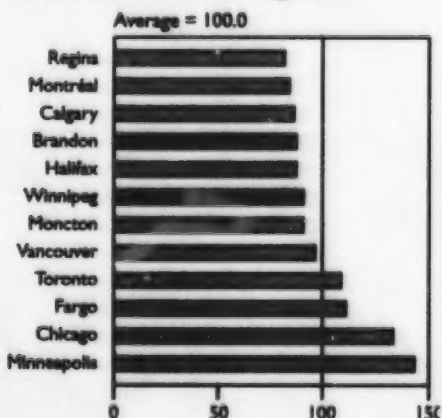
Source: Hydro-Québec

Pre-Tax Net Income Small Manufacturing Firm



Pre-tax net income is highest in Manitoba, due to low operating costs. (See Appendix 1)

Effective Tax Rates Small Manufacturing Firm



A comparison of the effective tax rates for a small manufacturer (also detailed in Appendix 1) shows that a Manitoba location offers competitive taxes.

■ There are professional sports teams in the International Hockey League, the Canadian Football League, the Northern Baseball League, and the International Basketball Association. In recent years, the province successfully hosted sporting events such as the Grey Cup, the World Curling Championships, the Canada Summer Games and the World Junior Hockey Championships. Last year, Manitoba was host to the Pan American Games, the biggest multi-sport event ever held in Canada.

■ There are 2.5 million acres of parkland and more than 100 golf courses in the province. Grand Beach on Lake Winnipeg is acknowledged as one of the best in North America. Visitors can watch the polar bear migration near Churchill, view the bison at Riding Mountain National Park or enjoy the great landings of migratory ducks and geese throughout the province. The choices are almost endless. Best of all, there are so many great outdoor destinations and activities that it is easy to get away and enjoy Manitoba's unblemished natural beauty.

■ While Manitoba's population is large enough to support a diverse cultural and sporting life, it is small enough to keep the air and water clean, the traffic moving and the natural beauty of our province unblemished. Manitobans pride themselves on being careful stewards of our natural environment through conservation and wildlife management programs.

To show Manitoba's cost advantages in more detail, two Appendices are attached. The first, Manitoba's Competitive Environment for Manufacturing, provides a more detailed comparison of the taxes and costs faced by typical manufacturers in various Canadian and American cities. The second is an Interprovincial Comparison of Annual Personal Costs and Taxes.

APPENDIX 1: MANITOBA'S COMPETITIVE ENVIRONMENT FOR MANUFACTURING

■ Introduction

Manufacturing is Manitoba's largest industrial sector. Manufacturing employment has experienced strong and steady growth over the past decade. Although the total value of manufacturing shipments declined in 1999 – primarily due to lower production of farm equipment – the value of manufacturing shipments has increased 67.5% since 1991. New capital investment in manufacturing in 2000 is projected to increase 13.6% in Manitoba, the third-strongest growth rate of manufacturing investment in the country.

With significant production in over 15 distinct industries, the manufacturing sector is a major contributor to Manitoba's economy. Manitoba is North America's largest manufacturer of buses, producing both intercity and urban buses. Manitoba is Canada's third-largest producer in the aerospace sector, with over \$1 billion in sales in 1999. Over 100 apparel firms contribute to making Manitoba Canada's third-largest apparel manufacturing centre. Food and beverage industries, with strong linkages to Manitoba's agriculture sector, shipped \$2.5 billion of products last year to countries around the world.

There are many factors that make Manitoba a competitive place for manufacturers to conduct business. Manitoba is centrally located with excellent transportation links to other parts of North America. Industrial and commercial land costs are lower than in most other major metropolitan centres, and our electricity rates are among the lowest in the world.

The Department of Finance has developed a model that is used to quantitatively evaluate Manitoba's tax structure and cost environment for a representative small and a larger manufacturing firm. The model is used to compare the Manitoba results relative to selected other North American cities.

The model simulates present and future start-up costs, operating costs, financial and taxation profiles over a period of 20 years. The current analysis is an update on the previous manufacturing competitiveness model which was first developed in the early 1990s. The representative firms' profiles have been updated using the most recent data available from Statistics Canada, local economic development boards, and other public sources.

■ Interjurisdiction Competitiveness

The following indicators are used to assess cost and tax competitiveness for a small and a larger manufacturing firm over a 20-year period:

- net cost of investment, or start-up costs (including applicable taxes);
- pre-tax net income;
- effective tax rates; and
- internal rates of return.

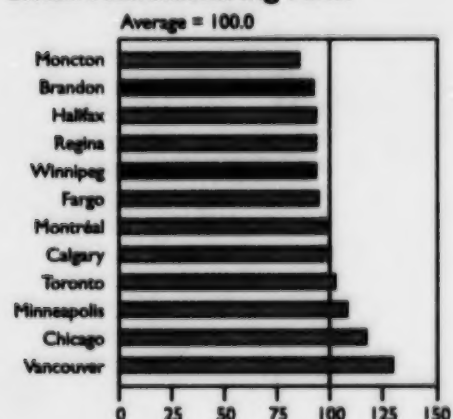
This analysis uses a variable cost model and calculates net revenue and cash flow, including start-up costs, based on the operating costs in each location. The simulation results for each city are compared to the overall average of all cities for each of the indicators, and are presented in the charts that follow.

All amounts for the U.S. cities were converted to equivalent Canadian dollar amounts using the average exchange rate for 1999 of US\$1.00 = C\$1.49.

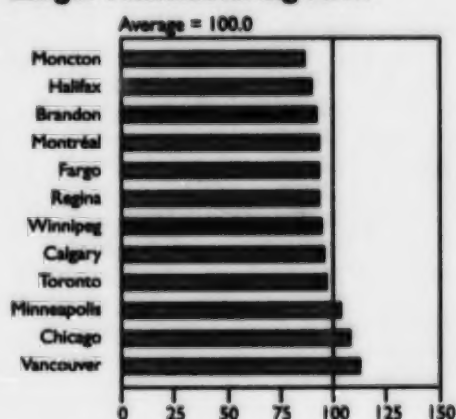
Net Cost of Investment

The costs of starting a manufacturing plant (land, buildings and machinery) are lower in Manitoba than the average for all cities. The net cost of investment for the larger metropolitan centres tends to be higher than the overall average, primarily because of the higher cost of land.

Net Cost of Investment Small Manufacturing Firm



Net Cost of Investment Larger Manufacturing Firm



Pre-Tax Net Income

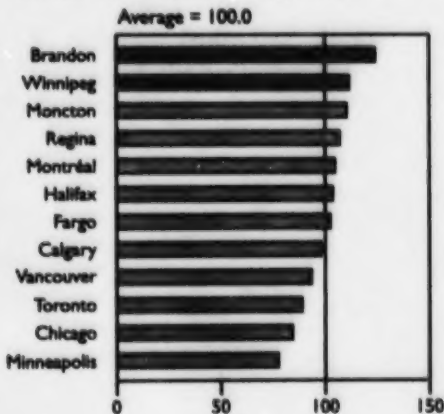
The model calculates pre-tax net income by subtracting from a common level of revenue the following location-sensitive operating costs:

- average manufacturing wages;
- local utility charges (electricity and telephone);
- interest costs; and
- capital depreciation.

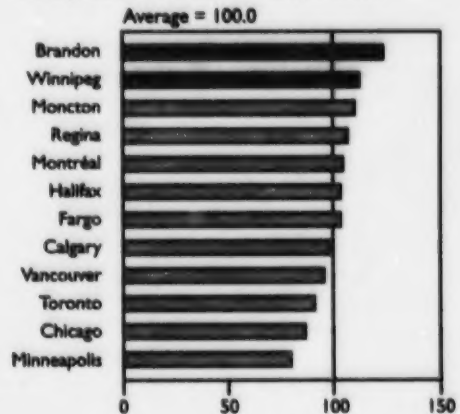
Pre-tax net income is used to compare Manitoba's cost competitiveness to the other locations. The sales figures used in the simulation model are fixed across the cities, rising to \$4 million for the small firm and \$45 million for the larger firm for years five through twenty. Production material costs are expressed as a percentage of sales and are also fixed across jurisdictions. A higher pre-tax income indicates lower operating costs in a given jurisdiction.

Brandon and Winnipeg yield the highest pre-tax net income for both the small and larger manufacturing firms. A talented, well educated and productive labour force and low utility costs contribute to the cost advantages of operating a manufacturing plant in Manitoba.

Pre-Tax Net Income Small Manufacturing Firm



Pre-Tax Net Income Larger Manufacturing Firm



Effective Tax Rates

Effective tax rates are generated by computing gross taxes as a proportion of pre-tax net income over the 20-year period.

The following operating taxes are included in the analysis:

- corporation income taxes;
- local property and business taxes;
- corporation capital and U.S. franchise taxes;
- payroll taxes;
- workers' compensation premiums;
- statutory pension and unemployment insurance premiums; and
- employer-paid health premiums.

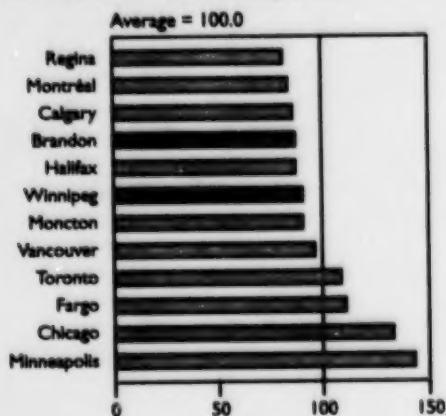
The following tax expenditures that benefit the manufacturing sector are also taken into account:

- investment tax credits;
- tax holidays;
- accelerated capital cost allowances; and
- preferential tax rates.

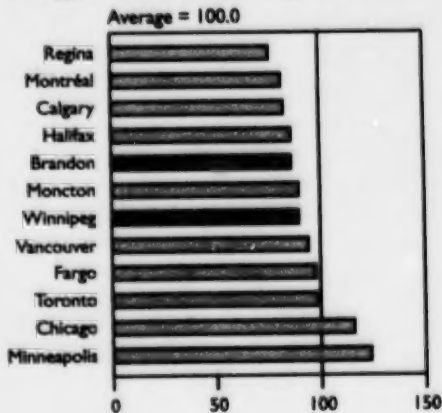
Not included in the models are enterprise zones, grants and other forms of governmental and third-party financial assistance programs.

The effective tax rates in Manitoba are lower than average.

Effective Tax Rates Small Manufacturing Firm



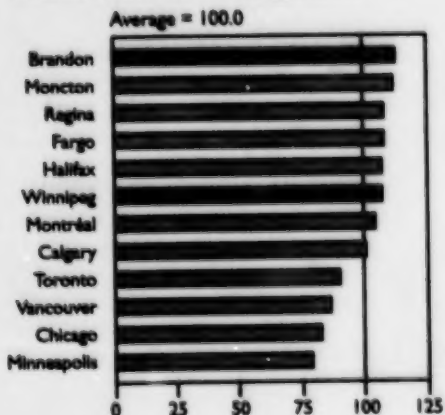
Effective Tax Rates Larger Manufacturing Firm



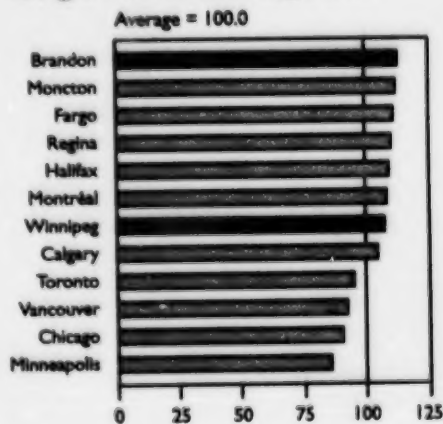
Overall Competitiveness

Overall competitiveness is measured by comparing internal rates of return. The internal rate of return is often used for business investment and location decision making. The following charts illustrate the combined effect of taxes and costs on the after-tax internal rates of return for the representative small and larger manufacturing corporations in the selected jurisdictions.

Internal Rates of Return Small Manufacturing Firm



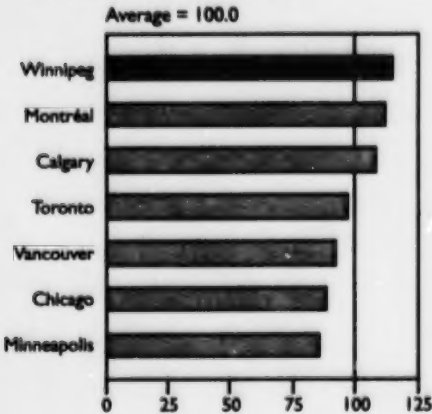
Internal Rates of Return Larger Manufacturing Firm



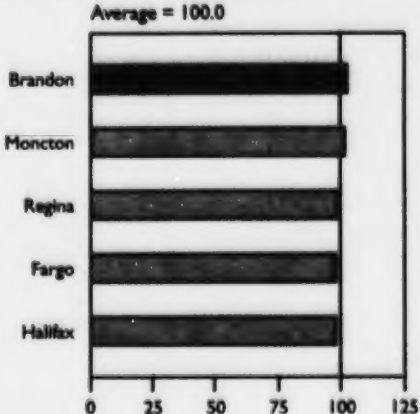
The internal rates of return for both Winnipeg and Brandon are better than the overall average of the cities included in the study.

Brandon has the highest rate of return for both the small and larger manufacturing firms. Among cities with populations over 500,000, Winnipeg has the highest internal rate of return for small manufacturing firms, and the second-highest for larger manufacturing firms.

**Internal Rates of Return
Small Manufacturing Firm
in Cities over 500,000**



**Internal Rates of Return
Small Manufacturing Firm
in Cities under 500,000**



■ Conclusion

Location-sensitive costs are generally lower in Manitoba than in the other jurisdictions included in this study.

Effective tax rates suggest that Manitoba's business tax regime is competitive with those of other provinces and the U.S. cities included in the study.

Most importantly, Manitoba has one of the best overall business tax and cost environments for manufacturing.

These results are consistent with findings released in prior Manitoba Budgets using the same model to generate indices to compare competitiveness.

APPENDIX 2:

2000 Interprovincial Comparison of Annual Personal Costs and Taxes

The table in this Appendix compares taxes and living costs for typical households in Manitoba with similar individuals or families in other provinces.

A single taxpayer earning \$20,000 in Manitoba pays the third-lowest provincial taxes in Canada. Combined taxes and living costs are the lowest in the country.

A married taxpayer earning \$40,000 with a dependent spouse and two dependent children has the fourth-lowest provincial taxes and the lowest combined taxes and living costs in the country.

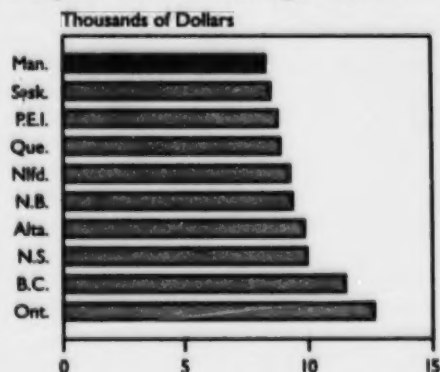
A family of four with \$60,000 earned income, has the sixth-lowest provincial taxes and the third-lowest combined taxes and living costs in the country.

Manitoba's top marginal personal income tax rate is the third-lowest in the country. Also, Manitoba's sales tax rate of 7% is the second-lowest of all provinces that levy a retail sales tax.

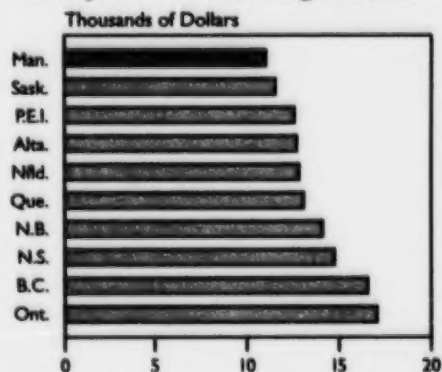
Low living costs and personal taxes mean that all Manitobans are able to enjoy a high standard of living in relation to other parts of the country. This makes Manitoba a more competitive and attractive location for both new and expanding businesses.

A superior quality of living, with lower personal costs and taxes, is clearly an important part of The Manitoba Advantage.

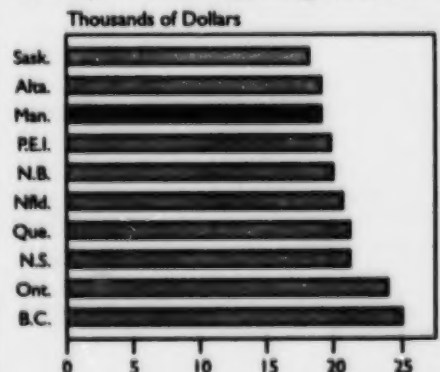
Annual Personal Costs and Taxes Single Person Earning \$20,000*



Annual Personal Costs and Taxes Family of Four Earning \$40,000*



Annual Personal Costs and Taxes Family of Four Earning \$60,000*



*Includes income, retail sales and gasoline taxes, health premiums, rent or mortgage costs, public transit costs or auto insurance, telephone service, electricity, heating and property taxes.

2000 Comparison of Annual Personal Costs and Taxes

Single Person: \$20,000	B.C.	Alta.	Sask.	Man.	Ont.
Provincial Income Tax	953	971	1,173	902	742
Retail Sales Tax	643	0	526	660	791
Health Premiums	432	408	0	0	0
Provincial Levies	2,028	1,379	1,699	1,562	1,533
Rent	8,196	7,200	5,496	5,472	9,240
Electricity	301	382	458	320	494
Transit Fares	648	600	552	716	1,062
Telephone	299	270	264	229	261
Living Costs	9,445	8,452	6,770	6,737	11,057
Total Costs	11,473	9,831	8,469	8,299	12,590
Family of 4: \$40,000	B.C.	Alta.	Sask.	Man.	Ont.
Provincial Income Tax	2,246	1,974	2,972	2,708	1,877
Retail Sales Tax	1,137	0	1,009	1,167	1,300
Gasoline Tax	300	180	300	230	294
Health Premiums	864	816	0	0	0
Provincial Levies	4,547	2,970	4,281	4,105	3,471
Mortgage Costs	8,057	5,766	2,895	2,901	8,202
Property Tax	1,165	1,072	1,400	1,239	1,800
Home Heating	465	611	621	846	676
Auto Insurance	1,133	1,104	977	950	1,530
Electricity	561	658	773	552	862
Telephone	599	540	528	457	522
Living Costs	11,980	9,751	7,194	6,946	13,592
Total Costs	16,527	12,721	11,475	11,051	17,063
Family of 4: \$60,000	B.C.	Alta.	Sask.	Man.	Ont.
Provincial Income Tax	4,726	4,674	6,190	6,394	3,849
Retail Sales Tax	1,419	0	1,296	1,456	1,654
Gasoline Tax	300	180	300	230	294
Health Premiums	864	816	0	0	0
Provincial Levies	7,309	5,670	7,786	8,080	5,797
Mortgage Costs	13,027	8,492	5,307	5,397	11,579
Property Tax	1,787	1,708	2,000	2,542	2,700
Home Heating	465	611	621	846	676
Auto Insurance	1,133	1,104	977	950	1,530
Electricity	734	842	984	707	1,108
Telephone	599	540	528	457	522
Living Costs	17,745	13,297	10,417	10,899	18,114
Total Costs	25,054	18,967	18,203	18,979	23,911

Sums may not add due to rounding.

Que.	N.B.	N.S.	P.E.I.	Nfld.	Single Person: \$20,000
1,391	1,158	1,138	1,138	1,227	Provincial Income Tax
865	1,015	1,022	844	994	Retail Sales Tax
0	0	0	0	0	Health Premiums
2,256	2,173	2,160	1,982	2,221	Provincial Levies
5,424	5,844	6,276	5,208	5,556	Rent
354	514	502	565	485	Electricity
564	576	684	720	600	Transit Fares
261	245	300	267	239	Telephone
6,603	7,180	7,762	6,760	6,881	Living Costs
8,859	9,353	9,922	8,742	9,102	Total Costs
Que.	N.B.	N.S.	P.E.I.	Nfld.	Family of 4: \$40,000
1,672	2,970	2,920	2,841	3,064	Provincial Income Tax
1,562	1,809	1,822	1,501	1,784	Retail Sales Tax
334	214	270	260	330	Gasoline Tax
0	0	0	0	0	Health Premiums
3,568	4,993	5,012	4,602	5,178	Provincial Levies
4,053	4,149	4,849	3,377	3,249	Mortgage Costs
1,800	1,500	1,450	1,200	633	Property Tax
1,290	1,150	1,055	1,131	1,298	Home Heating
1,264	941	910	836	1,133	Auto Insurance
567	845	878	929	788	Electricity
522	491	600	534	479	Telephone
9,495	9,075	9,742	8,007	7,580	Living Costs
13,063	14,068	14,754	12,609	12,758	Total Costs
Que.	N.B.	N.S.	P.E.I.	Nfld.	Family of 4: \$60,000
6,257	6,027	5,924	5,768	6,164	Provincial Income Tax
2,194	2,436	2,453	2,018	2,404	Retail Sales Tax
334	214	270	260	330	Gasoline Tax
0	0	0	0	0	Health Premiums
8,785	8,677	8,647	8,046	8,898	Provincial Levies
5,886	5,838	6,875	6,272	6,658	Mortgage Costs
2,700	1,739	2,009	1,700	1,100	Property Tax
1,290	1,150	1,055	1,131	1,298	Home Heating
1,264	941	910	836	1,133	Auto Insurance
724	1,065	1,128	1,171	1,002	Electricity
522	491	600	534	479	Telephone
12,385	11,223	12,577	11,644	11,670	Living Costs
21,170	19,900	21,224	19,690	20,568	Total Costs

NOTES

Taxes, charges and living costs are based on information available on May 5, 2000, for the following major urban centres in each province: Vancouver, Calgary, Regina, Winnipeg, Toronto, Montréal, Fredericton, Halifax, Charlottetown and St. John's.

Provincial Income Tax is calculated for a single renter with \$20,000 earned income, and two homeowners with \$40,000 and \$60,000 of earned income, respectively. Families include one income earner, a spouse, and two dependent children. Personal non-refundable credits used include the CPP/QPP and EI contribution credits. Gross Québec Personal Income Tax has been reduced by the 16.5% abatement from federal Income Tax. Refundable sales tax credits or rental credits and provincial tax reductions have been deducted from income tax payable. Tax credits related to property taxes have been deducted from property taxes.

Retail Sales Tax is based upon an average expenditure basket at the selected gross income levels from the *Survey of Family Expenditures in 1992* (Statistics Canada).

Gasoline Tax is based on annual consumption of 2,000 litres; this includes the 4.0 cents per litre transit levy imposed in Vancouver, and the 1.5 cents per litre levy imposed in Montréal.

Health Premiums are annual premiums for hospital insurance and medical services, in provinces which levy them.

Mortgage Costs are based on one-half the average home prices for a standard townhouse for the family with \$40,000 of income, and a standard two-storey for the family with \$60,000 of income, per the *Royal LePage Fall 1999 Survey*, amortized over 25 years, at a five-year interest rate of 8.35%.

Rent is from Canada Mortgage and Housing Corporation's *Rental Market Survey, October 1999*, and is based on average one-bedroom apartment rents for each urban centre.

Auto Insurance is based on a 1998 Taurus LX. Coverage includes \$1 million third-party liability, and \$200 all perils deductible in British Columbia, Saskatchewan and Manitoba; \$250 all perils deductible in Alberta, Québec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland; \$300 all perils deductible in Ontario. The driver is married, age 30, has been accident-free for seven or more years; the auto is driven to work (15 km, one way). Rates for British Columbia, Saskatchewan and Manitoba supplied by Manitoba Public Insurance; rates in other urban centres are the average of between 8 and 12 of the larger insurers.

Transit Fares are based on adult (single zone) monthly pass rates in effect in April 2000. Fredericton and Charlottetown fares are based on adult tickets for 240 working days.

Home Heating charges are from Canada Mortgage and Housing Corporation's *Canadian Housing Market, Third Quarter 1998*, which uses the average starter homes in metropolitan areas. For New Brunswick, Saint John data was used in lieu of Fredericton data, which was not available.

Electricity charges are based on annual consumption of 9,000 kWh and 12,000 kWh respectively for the families, at \$40,000 and \$60,000 of income; 4,500 kWh of usage for the tenant. Bill calculations for Regina, for a single person and for a family at \$40,000 of income, includes a Reconstruction Charge for SaskPower. Rates do not include municipal taxes or charges, and are based on residential rates in effect from May 1999.

Telephone charges are the basic service rates for individual residences. The single taxfiler uses a single phone; the families use two telephone lines.

Sums may not add due to rounding.